China: Gradual Change
Increasing Transparency and Accountability in the Extractive Industries

May Tan-Mullins

Summary
China's insatiable appetite for natural resources and energy to fuel its domestic growth is having an increasing impact on the environment, both in China and throughout the world. Domestically, environmental degradation and labor rights abuses have accompanied the increased exploitation of resources. Globally, China has turned to resource-rich regions such as Africa and Central Asia, at times engaging 'rogue states' to secure the resources it requires.

There is an urgent need to encourage global governance in the extractive sector, especially through transparency and accountability initiatives in China and the resource-rich states on which it relies. Local realities leave Chinese civil society organizations (CSOs) in a weak position to engage with the Chinese government and state-owned enterprises (SOEs).

However, research indicates that China is growing increasingly accepting toward external bodies that are engaging local stakeholders on issues of transparency and accountability. There are signs that the Chinese government, SOEs and CSOs are ready to collaborate on these issues.

Engagement and policy development should begin with increased engagement of Chinese companies locally and abroad—particularly through corporate social responsibility (CSR) efforts. Consultants working with private companies and SOEs can be advocates for expanding CSR efforts to include greater transparency and accountability.

There should be engagement on improving the transparency on bilateral resource access deals, especially by encouraging the publication of the terms of contracts. This is particularly vital in Africa and South America, where the Chinese are tying development aid to gaining access to resources.

Other policy entry points would be including the Extractive Industry Transparency Initiative (EITI) in trade agreements with various countries or to form an alliance with the Green Choice.
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Alliance (GCA), which focuses on responsible management of supply chains and provides a website of suppliers’ environmental performances and pollution records.\(^3\)

Most importantly, efforts should be made to increase China’s sense of ownership of EITI and other transparency and accountability initiatives by involving Chinese stakeholders in the formulation or adaptation of EITI standards to their country. It is important to involve these stakeholders in drafting all international initiatives because they want to help make the rules.

**ACRONYMS**

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<tr>
<th>Abbreviation</th>
<th>Full Name</th>
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<tbody>
<tr>
<td>CASS</td>
<td>Chinese Academy of Science and Social Sciences</td>
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<td>CMEC</td>
<td>China National Machinery and Equipment Import and Export Corp.</td>
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<td>CNOOC</td>
<td>China National Offshore Oil Corp.</td>
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<td>CNPC or Petrochina</td>
<td>China National Petroleum Corp.</td>
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<td>COFCO</td>
<td>China National Cereals, Oils and Foodstuff Corp.</td>
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<td>CRBC</td>
<td>China Banking Regulatory Commission</td>
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<td>CSO</td>
<td>civil society organization</td>
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<td>CSR</td>
<td>corporate social responsibility</td>
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<td>DRC</td>
<td>Democratic Republic of Congo</td>
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<td>EIA</td>
<td>environmental impact assessment</td>
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<td>EITI</td>
<td>Extractive Industry Transparency Initiative</td>
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<td>EPB</td>
<td>environmental protection bureaus</td>
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<td>GCA</td>
<td>Green Choice Alliance</td>
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<td>GEI</td>
<td>Global Environmental Institute</td>
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<td>IPEA</td>
<td>Institute of Public and Environmental Affairs</td>
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<td>IRN</td>
<td>International River Networks</td>
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<td>MCA</td>
<td>Ministry of Civil Affairs</td>
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<td>MEP</td>
<td>Ministry of Environmental Protection</td>
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<td>MFA</td>
<td>Ministry of Foreign Affairs</td>
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<td>MOFCOM</td>
<td>Ministry of Finance, the Ministry of Commerce</td>
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<td>MOLAR</td>
<td>Ministry of Land and Resources</td>
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<td>NDRC</td>
<td>National Development and Reform Commission</td>
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<td>NEA</td>
<td>National Energy Administration</td>
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<td>SAFE</td>
<td>State Administration of Foreign Exchange</td>
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<td>SASAC</td>
<td>State-owned Assets Supervision and Administration Commission of the State Council</td>
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<td>SED</td>
<td>strategic economic dialogue</td>
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<td>SINOPEC</td>
<td>China Petroleum and Chemical Corp.</td>
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<td>SKFPs</td>
<td>Six Key Forestry Programs</td>
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<td>SOE</td>
<td>state-owned enterprise</td>
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<td>VPPs</td>
<td>variable production payment deals</td>
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Natural resource management in China

Natural resource management in post-independence China was a laissez-faire matter, with numerous agencies managing various areas of the environment, such as forestry and fisheries. There was no single environmental protection agency. It was not until 1972, after the United Nations Conference on Human Environment in Stockholm, that a formal institution for environmental protection was suggested by Premier Zhou Enlai: the State Environmental Protection Agency. It became a full ministry in 1988 and was reorganized as the Ministry of Environmental Protection (MEP) in 2007 during the period of “super ministry reform.”

This ministry now provides the central leadership for protecting the environment. On the local level, there are environmental protection bureaus (EPB) affiliated with municipal governments.4 The biggest challenge facing environmental protection reform in China today is to “regulate the behaviors and relationship of various stakeholders—different levels of government, the industrial sectors, and the public.”5 Enforcement is often poor because of conflicts between environmental protection and the economic benefits of environmentally irresponsible development projects.6 Ambiguous environmental laws and the absence of an independent judiciary compound this.

Energy security is considered a national security issue.7 Resource extraction is a very important component of foreign policy, especially when it involves territorial ownership, as exemplified by the case of the South China Sea conflict. The National Development and Reform Commission (NDRC), a department of the China State Council, is the primary policymaking and regulatory authority in the energy sector, along with four other ministries. The National Energy Administration (NEA) was launched in July 2008 as the key energy regulator in China. In 2010, China formed the National Energy Commission to consolidate energy policy among the various agencies under the state council.

For governing the behaviors of overseas investments, various government agencies are influential: NDRC, the Ministry of Finance, the Ministry of Commerce (MOFCOM), the State Administration of Foreign Exchange (SAFE), and the state-owned Assets Supervision and Administration Commission of the State Council (SASAC). If mining and logging are included, then agencies such as MEP and the State Forestry Administration play a part as well.

Although the government officially supported the UN General Assembly’s Transparency Resolution and the Pittsburgh Declaration,8 there is no information publicly available on how policies are prioritized, drafted and approved. As a result, there is little transparency in the policymaking process. This is partly due to the historical lesson of glasnost (openness) in the Soviet Union: this policy led to criticism of the state apparatus and helped speed up its collapse.9 The Chinese government—one of the few remaining communist countries in the world—carefully controls the information it gives to the public. But with the increasing availability of the Internet and the

7 Personal communications.
9 Personal communications.
difficulty of controlling it, the Chinese government is gradually realizing the need to evolve and cater to the needs of the public.

In terms of EITI, neither the Chinese government nor any Chinese companies formally support it, although several companies have reported as part of nationally mandated frameworks. Chinese companies were shocked to find out what they thought was a voluntary initiative is considered national legislation in several African countries. He Wenping noted that although the Chinese government has placed a greater emphasis on fiscal transparency in recent years, implementation of measures aimed at enhancing fiscal transparency and accountability among SOEs—including the domestic extractive industries—continues to be a challenge. Given China’s challenges in achieving fiscal transparency at home, China is not well-placed to promote such requirements abroad through EITI.

Internally, China has not designated a specific ministry to handle EITI issues. Officials from agencies that could have a stake in EITI matters, including the Ministry of Foreign Affairs (MFA), NEA and the Ministry of Land and Resources (MOLAR), have been reluctant to discuss EITI. China’s MFA and NEA did not send observers to EITI’s annual conference in Doha, Qatar. In December 2008, China declined to include language in the strategic economic dialogue (SED) outcomes document that would have linked bilateral energy cooperation to a welcoming of efforts by EITI countries to strengthen transparency and accountability in the extractive sector.

However, Chinese companies have reported under the EITI framework in countries such as Gabon, Kazakhstan, Mongolia and Nigeria. The Chinese government and Chinese firms are familiar with initiatives like the Equator Principles (see Appendix A), Forest Stewardship Council, Global Reporting Initiative, International Council for Mining and Minerals, Kimberley Process and UN Global Compact (see Appendix B). One major question from respondents was why EITI is not under the UN framework, an issue that could contribute to the lack of support from Chinese entities.

**Relations Among State, Business and Civil Society**

Many SOEs are in the extractive sector. They are usually supervised by MOFCOM and SASAC. Beijing has pursued an active policy to create an elite corps of “national champions”: large, vertically integrated business groups that encompass entire industries from upstream to down. In 2002, the government began selecting some 50 globally competitive national champions from the most promising or strategic SOEs. These large corporations enjoy a range of benefits from the government, including information-sharing networks, domestic tax breaks, cheap land, diplomatic support and low-interest funding from state-owned banks. The policy is designed to develop these corporations’ technological skills, exploit China’s comparative advantages, gain access to key inputs, open new markets abroad, create global Chinese brands, and help China avoid becoming overly dependent on export-led development.

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11 Ibid.
13 Ibid.
In addition to these key SOEs, hundreds of others are funded by different government agencies.\textsuperscript{16} Local SASACs at the provincial and city levels handle SOEs within their respective jurisdictions, with independent powers over SOEs delegated to the local level. Province-level SOEs make up approximately 88 percent of all Chinese firms investing abroad, making provincial governments key players in China’s corporate engagement strategy overseas.\textsuperscript{17} Also, some private companies do not register with the government when they invest overseas, which means the Chinese government is not able to monitor or control behavior.

Ministry of Civil Affairs (MCA) statistics show that before 1978, there were about 6,000 non-governmental organizations (NGOs) in China. By the end of 2006, that number had reached 186,000. Despite their numbers, civil society organizations are relatively weak in China compared with other emerging economies. All NGOs in China have to register with the government, and the law stipulates that no NGO can be set up by “specific social groups,” such as migrant laborers, laid-off workers or ex-servicemen. NGOs with politically sensitive agendas, such as human rights and ethnic minorities’ rights, are not allowed to register. The government also seeks to prevent any NGO from developing an extended organizational network by banning regional offices, which curtails growth. The government does not allow new NGOs to be established in an administrative area where another NGO is doing similar work. Finally, NGOs do not have the ability to raise funds. However, environmentally focused NGOs are flourishing in China because the environment is not considered a sensitive issue, and the government is slowly realizing that it needs the help of nonstate stakeholders in environmental governance.

Similarly, international NGOs (INGOs) are facing difficulties in establishing a presence in China due to registration regulations and limitations on fundraising. INGOs have to operate under the watchful eye of the government and strict guidelines. However in recent years, INGOs have been allowed to operate in China through establishing headquarters in Hong Kong to direct operations in mainland China (e.g., Oxfam, Friends of Earth), setting up institutions of representatives attached to Chinese governmental institutions (e.g., CASS), registering as an industrial and commercial bureau (Nature Conservation), or via a memorandum of understanding with the Chinese government.\textsuperscript{18} Due to these relaxed restrictions, there are currently more than 200 registered INGOs in China in sectors from law and rights to environment and NGO development and capacity-building.\textsuperscript{19}

No INGOs in China are working on the extractive industries or specifically focusing on transparency and accountability issues. There are, however, INGOs focusing on the environmental impacts of unsustainable extraction and pollution, such as the Blacksmith Institute.

There is now a consensus among Chinese intellectuals that with increasingly unmanageable social and environmental issues in the country, the need for INGOs is growing. INGOs will be necessary to help provide knowledge, skills and funds to local NGOs, which in turn will help


\textsuperscript{19} The list of INGOs is available on the China Development Brief website, http://www.chinadevelopmentbrief.com/lingo/Sector/Rural-and-Community-Development/2-53-0.html.
develop Chinese civil society.

INGOs could work with well-established Chinese NGOs, such as the Global Environmental Institute (GEI) and the Institute of Public and Environmental Affairs (IPEA) in Beijing, the government-supported All China Environment Federation in Guangzhou, and the Green Anhui Environmental Development Centre in Anhui. GEI and IPE are both well established and have worked with government officials on various initiatives, such as pollution mapping and Forest Stewardship Council adaptation.

Initially, INGOs will face difficulties when working with local stakeholders. China retains a strong sense of nationalism and opposition to Western hegemony, and promoting international standards might be misconstrued as a promotion of Western standards. The best way to overcome this obstacle is to avoid preaching and criticizing and treat the collaboration as a two-way exchange. A sense of ownership on the part of Chinese stakeholders will make these initiatives sustainable in the long run.

Cultural Milieu

The act of gift-giving is considered an integral part of Chinese culture, though it has also become an outlet for bribery and corruption. For instance, during the traditional giving of "moon-cake" pastries during a mid-autumn festival, boxes of the pastries are often stuffed with cash notes to "build a relationship" (guanxi) or offered as thanks for favors rendered. Achieving transparency and accountability objectives will involve a gradual change of cultural mindset, which requires a long-term plan.

Importance of extractive sector in China

Oil and Gas

China has proven reserves of 15 billion barrels of oil and 100 trillion cubic feet (tcf) of natural gas. It is the largest consumer of oil in the world after the United States, and its energy demands are rising fast due to rapid industrialization and urbanization. Chinese oil consumption has grown five-fold since 1980, from 2 million barrels per day (MMb/d) to 10 MMb/d in 2010. Gas consumption has also increased, from 575 billion cubic feet in 1980 to 4.5 trillion cubic feet in 2010. It is predicted that China will double its oil consumption in the next 25 years and increase its gas consumption five-fold.

In 2010, 60 percent of China’s oil was imported, the majority from the Middle East, with Saudi Arabia accounting for 4.4 billion tons in 2010. China’s increasing dependence on imports has prompted the country to intensify its domestic exploration and overseas acquisition simultaneously. China is carrying out a series of new hydrocarbon explorations in Xinjiang and the South China Sea. Exploration of unconventional gas and shale gas is also under way. The Chinese government has also been encouraging overseas mergers and acquisitions through variable production payment deals (VPPs). China has signed these with Russia, Kazakhstan, Angola, Venezuela and Brazil. It has secured long-term supplies of gas from Qatar, Australia, Malaysia and Indone-

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20 Personal communications.

21 Personal communications.


23 Personal communications.
The Chinese government also launched a price reform in 2008 to tie retail oil prices more closely to international prices. Three national oil companies dominate the oil and gas sector: China National Petroleum Corp. (CNPC or Petrochina), China Petroleum and Chemical Corp. (SINOPEC) and the smaller China National Offshore Oil Corp. (CNOOC). Although listed on international exchanges, these companies are under the firm control of the central government and conform to its energy policy objectives, both at home and abroad. As such, the oil prices are controlled, leaving some wondering why domestic oil prices can increase while international oil prices fall. There are also smaller private oil and gas companies operating domestically, such as the China Shenhua Energy, Inner Mongolia Yitai and Shanxi Guoyang.

**Mining**

China is the world’s largest producer and consumer of coal. Coal supplies 71 percent of the country’s total energy consumption, equivalent to 85 quadrillion British thermal units. There are 27 provinces in China that produce coal, most notably the Shanxi and Inner Mongolia provinces in northern China. There are 25,000 mines and 7 million miners in the country. Coal consumption has been on the rise and, in 2009, China was short on coal by 3.5 billion tons. It is estimated that in 2020, China’s coal shortage will reach 1 billion tons per year, which will have serious impacts on domestic manufacturing businesses.

China’s coal industry has traditionally been fragmented among large state-owned coal mines, local state-owned mines, and thousands of town and village coal mines. The top three state-owned coal companies, which produce less than 15 percent of domestic coal, and Shenhua Coal, the world’s largest coal company, hold 9 percent of the domestic market. Other players include China Coal Energy and Zijin Mining.

The major concerns about this industry in China pertain to health and pollution. China generates 40 percent of global coal outputs, but contributes 80 percent of the industry’s fatalities due to poor safety standards and illegal mining. Many miners do not have health insurance and suffer from the lung disease pneumoconiosis. Although the government mandates that companies should cover employees’ health insurance, many miners, especially those in Sichuan, Guizhou and Yunnan provinces, do not receive proper medical examination and treatment.

As for pollution, the mining industry often uses the same sources of water as the surrounding communities. These mining activities tend to generate heavy metal pollution, which is especially harmful to infants and children. Moreover, most coal mines are open-pit mines, which create air pollution.

Mining also causes conflicts over the use of natural resources. Local governments are often more willing to allocate water use to mining companies than to communities in the case of conflicts.

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24 Ernst & Young, *Fueling the dragon: China’s investment in the global oil and gas market,* (Ernst & Young, 2011).
25 Personal communications.
26 Personal communications.
30 Personal communications.
since mining companies bring substantial revenues to local governments. In parts of Inner Mongolia, coal mining has caused ethnic conflicts because grassland for cattle grazing has been lost due to pollution.

Overseas, China has been increasing its engagement in the African mining sector, principally in Botswana, Zambia, Ethiopia, Ivory Coast, Uganda, Liberia and South Africa. Recent developments include a $7 billion mining agreement with the military government of Guinea in October 2009. In the Democratic Republic of Congo (DRC), deals were struck between the government and several Chinese companies for mineral concessions in exchange for infrastructure investments in Katanga Province. Three joint venture agreements were signed in Gabon on May 24, 2008, between members of the Comibel consortium (comprising the Gabonese state, China National Machinery & Equipment Import & Export Corp. or CMEC and Panzhihua Iron & Steel Group) to explore for iron ore. Controversy over the Sicomines financial arrangements has eclipsed the larger situation of Chinese involvement in DRC’s mining industries, in which a great deal of small-scale private investment is under way. One of the main criticisms of Chinese engagement abroad is that concessions to these areas are usually negotiated and awarded without competitive bidding or attention to environmental concerns.

Similarly, due to the significant initial investments in technology and equipment, large SOEs are usually the main operators of mining projects, which irrevocably leads to large environmental impacts, especially when mines are located in remote, ecologically fragile areas. Furthermore, the very nature of mining is environmentally degrading, and usually generates hazardous waste products such as cyanide and mercury, along with greenhouse gases. More controversial than land degradation are the harmful health outcomes for miners and local communities. Negative impacts should be mitigated by post-mining rehabilitation efforts, though there has often been a lack of compliance or political will to enforce them. In addition, Chinese projects have tended to begin without environmental impact assessments (EIAs) or suitable relocation/compensation to surrounding households.

**Logging**

China is a relatively forest-poor country. Most of its original forests were cleared centuries ago, and overharvesting in recent decades has depleted many of the remaining ones of mature trees. As such, the government has introduced the Six Key Forestry Programs (SKFPs) since 1997, which cover more than 97 percent of the county. SKFPs mainly focus on rehabilitating forests, converting cropland to forests, protecting forests and establishing fast-growing timber plantations for commercial use. Land tenure reforms were also introduced to contract forests to private owners for better management and sustainable use.

However, a 1998 logging ban in China has fueled the nation’s demand for foreign timber, which is leaving a massive environmental footprint outside of China’s borders and raising legitimate concerns that an increase in illegal logging may occur to meet that demand. Mainland logging SOEs include the China National Logging Corp., China Petroleum Logging and Logistics, and China

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31 Personal communications.
National Cereals, Oils and Foodstuff Corp. (COFCO).

As the largest importer of forest products in the world, China imports most from Central Africa. Mozambique is one of the biggest exporters with more than 90 percent of its timber destined for China. Approximately 70 percent of Equatorial Guinea’s timber, 50 percent of the Republic of the Congo’s, and more than 40 percent of Gabon’s were exported to China in 2005. In terms of contributions by export volume, Gabon is the top African exporter, delivering 1.1 million square meters of logs, which accounted for 3.9 percent share of total imports in 2009 to China.

Apart from a loss of local biodiversity and harm to forest-dwelling communities, Africa’s disappearing forest could have global environmental implications: less capacity to absorb carbon dioxide and thereby mitigate the effects of fossil fuel emissions.

In April 2009, working with the World Wildlife Fund (WWF), the China State Forestry Administration and Ministry of Commerce jointly released guidelines for Chinese enterprises in pursuing sustainable operations and management of overseas forestry. The same month, the Ministry of Commerce released a guide to foreign investment in 164 countries and regions, including environmental protection regulations and standards. Examples are the National Guidelines on Sustainable Overseas Silviculture and the National Guidelines on Sustainable Overseas Forestry Development and Utilization for Chinese Enterprises, which were introduced by the Chinese government in 2007 and 2009, although they are not mandatory. This places the responsibility for sustainable timber extraction on the shoulders of private companies.

Recent developments in policies and practices
Over the past few years, there have been administrative and legislative efforts to strengthen environmental protection domestically.

Shifts in Policy Planning
Issues of climate change, environmental conservation and energy featured prominently in China’s five-year plan (2011-2015). This plan has binding targets of a 16 percent cut in energy consumption per unit of GDP, a 17 percent cut in carbon intensity, and an 8 percent reduction in sulphur dioxide and chemical oxygen demand. There were also goals for increased forest cover and reduced water usage and pollutants, which were absent in previous plans.

This change is a result of the ongoing debate in China about how to diversify the country’s energy mix. There are talks about increasing renewable resources to at least 15 percent of the overall mix by 2015. China is investing twice as much in the low-carbon energy industry as the United States is: $15.6 billion in 2008.
China is also incorporating environmental monitoring and assessment components into its 12th five-year plan. It published the results of the first national census of pollution sources in February 2010, which took 570,000 staff members, $100 million and more than two years to complete. The report revealed that water pollution in 2007 was twice as much as had been shown by official figures, with discharges totaling 30.3 million tons.

Recent Government Reforms

In 2007, China developed an environmental database of Chinese companies, requiring commercial banks to review and weigh each applicant’s environmental history before approving credit applications. Along with the Ministry of Environmental Protection (MEP), the China Banking Regulatory Commission (CRBC) established a “green credit system” that aims to restrict the availability of credit to companies that violate environmental laws. It was only after the implementation of these initiatives that corporate social responsibility (CSR) emerged on the agenda of many SOEs—partly as a public relations tool to “green” their corporate images.

There have also been important tax reforms in the extractive industry. For example, a resource tax was introduced in November 2011 that taxes crude oil and natural gas based on their sales value, at a rate ranging between 5 percent and 10 percent. Coking coal and rare earths are still taxed by volume but at higher rates. China started its first resource tax reform on crude oil and natural gas in the northwestern province of Xinjiang in 2010, and later extended the reform to 11 other provinces. The reform could cost China’s top three oil companies a combined $7 billion per year. The Chinese government says the reform is mainly for the purpose of resource conservation and environmental damage reduction, but analysts believe the move will also cause a larger portion of resource companies’ profits to flow to local governments’ pockets.

Environmental initiatives such as a project-based environmental impact assessment (EIA) and a national environment monitoring network have also been established, along with more than 200 environmental policies, laws and regulations.

Policies and Standards of Chinese Business

An emerging theme in these initiatives is CSR and the integration of social and environmental concerns into business operations. Unlike Western societies in which CSR is driven by civil society, in China it is promoted by the government. The main problem with CSR is that it is a contested concept with no clear definitions, making theoretical development and measurement difficult. It is also a voluntary initiative, with no global regime for national regulations that would balance property rights with obligations to labor and environmental issues.

In the mid-2000s, there was a noticeable increase in the adoption of CSR principles, including the ISO 14001 standards. The ISO 14001 is a series of international standards for environmental protection.
management that aim to help organizations minimize the negative environmental impacts of business operations. China’s adoption of these standards was consolidated with the CSR guidelines for SOEs issued in January 2008 by SASAC. These require SOEs to not only develop in a people-centered, scientific way and make profits, but also “take responsibility for all stakeholders and the environment, and ultimately to harmonize the enterprise with social and environmental development.” The number of Chinese firms certified with ISO 14001 standards increased from 222 in 1999 to 5,064 in 2003. More recently, China has also supported the ISO 26000 standards on social responsibility.

Major Chinese investors, financiers and equipment suppliers have yet to adopt such standards. A July 2007 review of China’s environmental performance carried out by OECD recommended that China “improve governmental oversight and environmental performance in the overseas operations of Chinese corporations” and “integrate environmental considerations systematically into China’s growing development cooperation program.” Typically China has rebuffed such suggestions by reiterating its commitment to the principle of noninterference in the domestic affairs of partner states. China’s ExIm Bank adopted an environmental policy in 2004 dealing with issues before, after and during project implementation, and added more specific guidelines on social and EIAs in 2007 (See Appendix A).

The bank’s guidelines require projects to comply with host-country policies—but not international standards—regarding environmental assessment, resettlement and consultation. This was partly as a consequence of a campaign led by the International River Networks (IRN) to get ExIm to adopt international best practices on the environment—one of numerous examples of how CSR initiatives have been adopted either because NGOs pressured companies over the environment, community development or global warming, or because companies saw an opportunity to improve public relations by projecting a “green” image.

Chinese enterprises with overseas operations are also responding to the increasing call for CSR. There are companies that engage with international initiatives such as the ICMM, the Global Compact and EITI—a good beginning to gradual, long-term change. For example, Sino Steel Group published its Sustainable Development Report – Africa in 2008, which stated that the company “puts high emphasis on resource conservation, recycling economy, environmental protection, and safety and health management of its African operations.”

In terms of engagement, however, it might be easier to start with China-based headquarters than with overseas managers who are more concerned with the daily operations of the businesses and avoiding negative news, as in the cases of unrest between Chinese and locals at Zambia’s

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49 Personal communications.
55 Ibid.
Sinazongwe mine or the shooting incident at the Collum coal mine.57

**Emerging issues**

**Tying Aid to Investments**

One of the key criticisms of China’s overseas investment is the blurring of aid and investments. China tends to disburse its developmental aid in the form of investment. For example, ExIm Bank has given out concessional loans for building infrastructure when the Ministry of Commerce has assigned a Chinese company as the contractor. The Chinese contractor then purchases and imports from China as much equipment, technology and services as possible. Commentators and activists often charge that Chinese loan practices undermine the work of Western donors around governance, human rights and environmental protection.58

**Illegal Activities**

Illegal coal and rare earth mining are common in China due to the lack of monitoring and enforcement agencies. These small, illegal operations, with outdated technology and skills, tend to be the most prone to accidents. The increase in the resource tax might lead to a rise in illegal mining, especially of rare earth.59

What is more crucial is the involvement of mainland Chinese companies in the illegal forestry trade in Africa. According to Watts, Chinese timber imports come largely from countries with poor forest stewardship, including those in Africa, and the timber is often illegally purchased. The Royal Institute of International Affairs in London estimates that 70 percent of China’s timber imports from sub-Saharan Africa are illegal. It is also estimated that up to 90 percent of the total harvest going to China is illegal. According to some analysts, China’s influence in the sector encourages “flagrant disregard for the law,” and taxes are not paid on 60 percent of the area allocated as forest concessions.60

**Enforcement, Evaluation and Monitoring Mechanisms**

China enacted a law in 2003 on public information disclosure. The public has used this law to obtain information from the government. Gradually, more information is being collated and released by the government. An example will be the air and water pollution map. At the moment, there is no one agency in charge of the monitoring or evaluating mechanisms of CSR initiatives or transparency and accountability. The voluntary nature of CSR also makes monitoring or auditing difficult. Chinese firms also tend to keep “bad” news away from the public.66

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59 Personal communications.
63 Chan-Fishel, 2006.
64 Ipe.org.cn.
65 Personal communications.
66 Personal communications.
When investing overseas, some companies such as CNPC have made concerted efforts to support CSR initiatives, such as donating $50 million to Sudan for the construction of hospitals and schools and building the world’s largest biodegradable wastewater treatment facility. Sinopec, by contrast, has not conducted a single EIA or published a CSR report identifying the environmental implications arising from the exploratory/extractive platforms in Angola.

Enforcement by hosting countries is also important to the success of such initiatives. For example, the Angolan government has insisted that transnational corporations operating in Angola devote 15 percent of their annual budgets to development-related activities. But since Angolan state-run oil producer Sonangol manages this process, it’s not at all clear that the same rules apply to Chinese oil companies like Sinopec or to quasi-national companies such as CSIHW or SSI. It is thus important to enhance the governance and enforcement abilities of hosting countries.

**Different Understanding and Concepts of CSR**

In a survey by CASS, Chinese business leaders understood CSR to mean contributing to the expectations of their communities and local economic growth, complying with local laws, caring for the environment, and making philanthropic donations to schools and hospitals. Chinese companies very rarely consider transparency and accountability issues as part of CSR.

The SASAC guidelines focus on the four goals of “long term business success and payment of taxes; ethical behavior, safeguarding workers’ rights and interests; protecting the environment and contributing to the local welfare through philanthropic spending.” They make no mention of transparency and accountability. One key difference between Chinese and Western conceptions of CSR is the relative attention paid to whether business practices reinforce or undermine local legal and political institutions, particularly in institutionally weak countries. While the Western model for overcoming state corruption in managing natural resource revenue is based on encouraging transparency, the Chinese model tends to rely on the direct provision of public infrastructure (especially in places like Africa).

Woodrow Wilson Center scholar Jill Shankelman said that major Chinese corporations are now at a stage “comparable to that of their Western counterparts in the late 1990s in terms of steps to improve social and environmental performance ... They are making commitments, spending money on environmental improvements and social projects, and celebrating their success ... However, they have yet to develop detailed policies or procedures ... They are supporting philanthropic projects, but in most cases without a clear understanding of how to ensure the acceptability or sustainability of those projects, and have not yet built up the internal expertise to fill these gaps.” Moreover, in China, there are different frames for CSR, such as those from Jiang Zemin and Hu Jintao’s “Eight glories versus eight humiliations,” which focus more on community and
national development.

Lack of Knowledge, Skills and Technology
China has signed more than 50 international environmental treaties. However, there is a severe shortfall in actual implementation and enforcement, as China lacks the knowledge, skills and technology to implement the agreements. China’s targets to reduce carbon emission in its 12th five-year plan were delegated to the provincial level. However, the provincial government has no knowledge of how to reduce carbon emission and felt pressure to adopt drastic measures, such as closing down coal-fired power plants, which will in turn affect business productivity.\(^75\) Hence it is important to build knowledge and skills in these sectors.

Increasing Public Awareness through Social Media
Social media and micromedia are now very important in China and have played a major role in influencing the policymaking process. Weibo (a Chinese micro-blogging site akin to Twitter) was mentioned by 14 respondents as playing an increasingly important role in raising public awareness, which puts pressure on companies, especially in cases of mining accidents or oil spills.

A recent example was an oil spill at the Bohai oil field of the China National Offshore Oil Corp. (CNOOC): social media played a major role in reporting on the incident, which then put pressure on the government to have CNOOC report about the incident.\(^76\) There have also been cases of social media and micro-blogs being used to expose corrupt officials through comparisons of officials’ salaries and their personal belongings. This has helped increase awareness of accountability issues in the country.

Conclusion: Policy options and process

Policy Options
There are several openings for engagement and policy development around transparency and accountability in the extractive industry. First, there should be increased engagement with Chinese companies locally and abroad. In China, there is increasing awareness of the importance of improving companies’ image through CSR. This provides an entry point for engaging with local and overseas companies. Highlighting the importance of factors other than philanthropy and social contributions, advocates could improve transparency and accountability in environmental reporting by encouraging the release of information through company websites or annual reports. In particular, advocates should engage with CSR consultants working with SEOs and private companies as they will be the best advocates in tailoring CSRs for individual companies.

It is particularly vital to elevate SOEs’ commitment to CSR, as the extractive industry in China and overseas Chinese investments are mostly dominated by SOEs. One important entry point is to increase Chinese attendance (government, SOEs, CSOs) at major EITI or transparency and accountability events. Examples are the recent EITI conference in Ulaanbataar organized by the UNDP and the Busan Summit on aid issues.

Second, there should be engagement on improving the transparency of bilateral resource access deals, especially encouraging the publication of the terms of contracts.\(^77\) This policy option

\(^75\) Personal communications.
\(^76\) Personal communications.
\(^77\) Personal communications.
is particularly vital in Africa and South America, where the Chinese are tying development aid to resource access. Increasing transparency on these deals will not only promote transparency and accountability in China, but will also improve governance and accountability in the weaker states. Another possibility is to map SOEs and private companies in terms of their performance on transparency and accountability and CSR, which will then serve as a guide for host countries in accepting or rejecting investments from these firms.

An alternative point of entry on policy would be to include EITI in trade agreements between various countries. The easiest way to do this would be to engage with the World Trade Organization on issues such as certification and tariffs. Another option is to connect with the Green Choice Alliance (GCA), which focuses on responsible supply chain management and provides a website tracking suppliers’ environmental performance and pollution records. RWI could establish a sub-database on the extractive industries.

Most important is to increase the sense of ownership among Chinese stakeholders over the formulation of transparency, accountability and EITI standards. It is important to involve the Chinese stakeholders in the drafting of all international initiatives, such as EITI or Global Compact. China wants to be more than just a player in the game; it wants to help make the rules. It might be appropriate to commence a new sub-EITI program focusing on the emerging economies.

It will be difficult for China to fully disclose all the information on these deals, financial and otherwise. An initial step would be to focus either on the EITI process of multi-stakeholder engagement, or on a certification process in which disclosure is confined to an authority and kept classified until a later stage. This would encourage a sense of ownership among emerging economies, which would help with adoption, sustainability and enforcement.

Many Chinese companies’ leaders also stressed the need to adapt international models to the Chinese context. A good example is the Forest Stewardship Council standards, which are currently being adapted and adopted in China. A multi-stakeholder group of 150 stakeholders within the Ministry of Forestry defines performance indicators for China based on local inputs (see Appendix C).

Similarly, creating a Chinese stock market listing rule requiring disclosure of key information could be a policy option. Currently in China, there are government regulations for information disclosure on financial statements and contacts when a company would like to be listed on the Chinese stock market. Independent auditing standards issued by the Ministry of Finance also promote professional ethics, although their effectiveness is questionable at times. A Chinese listing requirement could build on the precedent set by the U.S. Dodd-Frank Act, Section 1504, but it would have to be developed in the Chinese context to appeal to the country’s regulators and policy makers.

The key players in the resource sector, arranged in ascending order of importance, are the govern-

79 Personal communications.
80 Forstater et al., 2010.
81 Ibid.
ment and various state agencies, the SOEs, private firms, media and civil society organizations (such as think tanks, chambers of commerce or academics). (Refer to Appendix D for a list of ministries and divisions.)

Process
One good way to introduce transparency, accountability and EITI is to frame these issues in terms of potential risks and long-term benefits for business. For example, if a business is willing to care for the local environment and its people, then it will be able to sustain its business longer. If a project is threatening the livelihood and health of local people, they could turn violent and threaten the business. This has happened in places like Zambia and Nigeria, where locals were so dissatisfied with working conditions, threats to the environment and to their livelihoods that some foreign workers were killed. In countries with politically unstable regimes (such as Burma or Sudan), engaging with such rulers will only increase the political risk for China and Chinese companies. Alternatively, issues could be framed in terms of taxation: with greater transparency, it would be easier to control and increase government tax revenues.

The timeline for this effort project should be medium- to long-term, as change happens gradually in China. There should be a Chinese partner (such as a think tank or academic) in this effort, as members of the Chinese government are more comfortable working in the Chinese language. This partner should be able to contact relevant stakeholders and advise on the working agenda, as well as to warn against possible perceptions of aggressiveness. For example, the EITI Secretariat and EITI supporting countries could coordinate with Chinese think tanks to create opportunities to inform policymakers and influential academics about EITI. There should also be collaboration on research with Chinese CSOs.

The format for engagement could be a bilateral setting, which the Chinese find more comfortable than multilateral settings. Alternatively, advocates could work with private companies through a chamber of commerce. Advocates should also employ the help of the traditional and social media to raise awareness on these issues. The Caijin Internet news site is a useful place to publish analyses that draw government responses. Utilizing Weibo is also a good way to influence the social consciousness of the Chinese. This could be done through analyses by think tanks and academics. However, there must be formal channels to approach top leaders for their support too.

Advocates could also utilize the educational platform, incorporating CSR and transparency and accountability tools into MBAs, which would provide some training for the business community.

Another way to initiate a two-way dialogue is to organize joint research programs or co-found projects or initiatives. One possible topic would be energy security, in which China has a shared agenda with other emerging economies.

When engaging key players on transparency and accountability issue, advocates need to consider the cultural issue of “saving face.” As accountability implies responsibility, it would be unwise to focus on instances of corruption or bribery, as it would only make the players uncomfortable and defensive.

83 Personal communications.
84 Personal communications.
85 Wenping, 2010.
86 Personal communications.
One way to broach the subject would be through the lens of best practices. Advocates could select companies that provide successful examples, summarize the main lessons learned, and distribute them to Chinese companies at exchanges or workshops. Practical examples with concrete solutions from both the developed and developing world should be provided.87 Advocates could also broaden the discussion to include companies from other emerging economies.88

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87 Personal communications.
88 Forstater et al., 2010.
APPENDIX A

Example of China Ex-Im Bank

The Export-Import Bank of China was established in 1994 as a wholly government-owned bank reporting to the State Council. The bank's role is to promote exports and investment by providing export credit, international guarantees, loans for overseas infrastructure and official lines of credit. As such it is the largest stakeholder of 'China Inc' in Africa.

Since 2004 China Ex-Im Bank has required its borrowers to submit to internal review and comply with local laws of the host country. The policy states that 'projects that are harmful to the environment or do not gain endorsement or approval from environmental administrations will not be funded.' It stipulates that 'once any unacceptable negative environmental impacts result during the project implementation, China Ex-Im Bank will require the implementation unit to take immediate remedial or preventive measures. Otherwise, they will discontinue financial support.' In 2007, China Ex-Im Bank issues more specific guidelines on social and environmental impact assessment. The guidelines require projects to comply with host country policies—but not international standards—regarding environmental assessment, resettlement and consultation. China Ex-Im Bank takes an active role in monitoring environmental impacts throughout the project cycle and reserves the right to cancel a loan if environmental impacts are not adequately addressed.

In developing their own principles China Ex-Im bank and materials that they have developed to guide credit officers and management, they drew on others' experience, including the Equator Principles. They also learnt their own lessons in developing an in house culture of risk awareness and responsibility. “We had to understand CSR and sustainability not as trying to deal with bad effects of any project financing, but a way of understanding and controlling risk.”

Exim has not become an Equator Principles bank, but Zhao Changhui, Chief Analyst of Country Risk Management, Ex-Im Bank, says there is a “moral imperative to study these principles at the level of practitioners. The concept may be new but the values have been there all the time. We need to crystallize it into the language of the Chinese characters. Senior executives may be frightened away by these principles. We need to simplify it and educate the corporate culture to develop a better, stronger and more reputable China.”

APPENDIX B

Key initiatives addressing natural resource industries

- **Equator Principles** offer a framework for environmental and social risk assessment of project finance, based on the Environmental and Social Standard of the IFC.

- **Extractive Industries Transparency Initiative (EITI)** is a global standard that promotes revenue transparency. It provides a robust yet flexible methodology for monitoring and reconciling company payments and government revenues at the country level. The process is overseen by participants from the government companies and national civil society.

- **Forest Stewardship Council**, set up in 1993, is an international non-governmental organization dedicated to promoting responsible management of the world's forests. It runs a global forest certification system that allows consumers to identify, purchase and use timber and forest products produced from well-managed forests.
• **Global Reporting Initiative** was set up in 2000 to develop, steward and encourage adoption of generally accepted guidelines for public reporting on sustainability performance.

• **International Council for Mining and Minerals (ICMM)** Sustainable Development Framework, developed by an industry group provides a framework of principles for sustainable development, reporting and independent assurance for mining companies.

• **Kimberly Process (KP)**, launched in 2003, certifies diamond supply chains to ensure that legitimate supplies can be distinguished from ‘blood diamonds’ that finance conflict.

• **UN Global Compact (UNGC)** established 10 broad principles covering environment, human rights, labor and anti-corruption and provides guidance, tools, learning and collaboration networks to assist companies in meeting and communicating these principles.

• **Voluntary Principles on Security and Human Rights (VPs)**, launched in 2000, set out a standard to ensure that security forces protecting extractive projects do not intimidate or harm local people.

**APPENDIX C**

**Case example of FSC in China (CASS, 2010)**

The FSC is an independent, non-governmental, not-for-profit organization established to promote the responsible management of the world’s forest. It is a multi-sector organization, which brings together organizations from the North and South to define environmentally appropriate, socially beneficial and economically viable forest management standards and controls. In China, over 1.3 million hectares of forest and 1,250 companies are certified to FSC standards.

As part of the FSC’s effort to decentralize its activity to the national and regional levels, it has established the FSC China-National Initiative Process to develop a forest certification standard compatible to forestry conditions in China. The FSC China-National Initiative Process is not subordinate to the FSC, or is its agent.

The FSC China National Initiative aims to help realize a mutual recognition between China’s national forest certification scheme and international standards. It seeks to encourage the involvement of China’s stakeholders in forest certification and assist in the development of national forest standards as well as promote the awareness and operations of sustainable forestry in China.

THE FSC China National Initiative has 107 members from government departments, academies, universities, professional associations, forest management units, timber processing enterprises, non-governmental organizations, and the news media. It is governed by a Council elected by all the Initiative’s members and evenly divided between environmental, social and economic chambers.

The FSC has also signed a Memorandum of Understanding to collaborate with the Certification and Accreditation Administration of the People’s Republic of China (CNCA) to promote the development of forest certification in China. This involves information exchange, training, technical collaboration and coordination in the development of certification standards.
### APPENDIX D

#### Table 1

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<th>Sector</th>
<th>Ministries/Stakeholders</th>
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<td>China State Council</td>
<td>Development Research Centre, Li Wei, Research department of industrial economyFor Dodd-Frank: Research Institute of Finance</td>
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<td></td>
<td>National Development and Reform Commission (NDRC)</td>
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