

Dodgy Deal: Shwe gas and pipelines projects Myanmar



update

This dodgy deal is updated regularly
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Description

The 'Shwe' (meaning 'golden' in Burmese) projects entail exploitation of underwater natural gas deposits off the coast of western Burma's Arakan State and dual oil and gas pipelines that will transport this gas along with oil imports from Africa and the Middle East, to southwest China.

The Shwe Gas Project: A consortium of four Indian and South Korean companies led by Korea's **Daewoo International** are teaming up to exploit natural gas from blocks A-1 and A-3 in the Bay of Bengal. The project will be comprised of an offshore production platform, an underwater pipeline and an onshore gas terminal in Kyauk Phyu Township on the Arakan coast which will cost an estimated US\$ 3.73 billion to develop. The consortium expects to extract 500 million cubic feet of natural gas per day.

Dual Oil & Gas Pipelines: The gas will then be transported through Burma to southwest China (possibly as far as Nanning, capital of Guangxi Province), via a 2,800 km gas pipeline to be built by the **China National Petroleum Corporation (CNPC)**. The gas will be distributed by CNPC's subsidiary PetroChina. The Burmese military regime stands to profit at least US\$29 billion over 30 years from the revenues.

Alongside the gas pipeline, CNPC plans to build a sister oil pipeline. The oil pipeline will allow CNPC to ship oil from Africa and the Middle East to China bypassing a slower shipping route through the Strait of Malacca. In October 2009 CNPC began construction on a deep-sea port and crude oil terminal to receive the oil in Arakan State's Kyauk Phyu Township. The 771 km-long oil pipeline may transport up to 22 million tons of oil per year to China's southwest Yunnan Province. CNPC holds a 50.9% stake in the pipelines project, with the Burmese military regime's Myanmar Oil and Gas Enterprise (MOGE) holding the remaining 49.1%. The estimated construction costs are US\$ 1.5 billion for the oil pipeline and between US\$1.04 and 1.95 billion for the gas pipeline. Additionally, CNPC may pay an annual transit fee of US\$ 150 million per year to the regime for the use of the pipeline in Burma. The pipelines contract is expected to run 20-30 years, with CNPC paying as much as US\$ 4.5 billion in transit fees to the regime.

The pipelines will traverse the entirety of central Burma, from Arakan State, through Magwe Division, Mandalay Division and Shan State, before entering China.

brief history

In **August 2000**, South Korea's Daewoo International signed a production sharing contract with the Myanmar Oil and Gas Enterprise (MOGE) to explore, produce, and sell underwater gas reserves off the Arakan coast.

In **January 2004**, Daewoo announced a "commercial scale gas deposit" in the offshore A-1 block. One month later, Daewoo acquired the neighboring A-3 block. In **August 2006** the two blocks are certified to have an estimated available reserve of 5.4-9.1 trillion cubic feet.

In **June 2008**, CNPC signed a memorandum of understanding with Daewoo and other members of the Indian-South Korean consortium to purchase and transport the natural gas from blocks A-1 and A-3.

In **June 2009** CNPC signed an MOU with Burma's Ministry of Energy to construct, operate and manage the oil pipeline, an unloading port, terminal, and storage and transportation facilities.

In **October 2009**, CNPC began construction of the port for the oil terminal in Kyauk Phyu township. Completion of the crude oil port and storage facilities was expected sometime in **2010**.

On **3 June 2010** CNPC announced that construction of the pipelines in Burma officially started. CNPC subsidiary CNPC Southeast Asia Co., Ltd. will be in control of the design, construction, operation, expansion and maintenance of the two pipelines.

China's *Caijing* Magazine reported that CNPC started construction of the China section of the pipelines on **6 September 2010** in Kunming, Yunnan Province.

The pipeline is expected to be completed and put into operation in **2013**.

**unless otherwise noted, all information can be found in the Shwe Gas Movement's September 2009 report, "Corridor of Power," p.10.*

Social impact

Instigating conflict in ethnic areas: The pipelines will traverse 22 townships across the whole of central Burma. This area includes several ethnic regions such as Arakan and Shan States, which largely see themselves as separate states and are at odds with the military junta. Before the ruling SPDC begins natural resource projects, it often employs military offensives against ethnic groups to clear project areas. For example, in August 2009, the Burmese military launched a campaign in Shan State against the ethnically-Chinese Kokaing militia just prior to the planned start of pipeline construction. As a result, an estimated 30,000 refugees fled over the border to China.

Inequitable government spending on social development: Burma is one of the least developed countries in the world, with inadequate social welfare programs to meet the needs of its people. Social development investigations consistently put Burma at the bottom of the rankings. For example, the World Health Organization ranked Burma 190th out of 191 countries for an overall health system and Burma has the highest HIV/AIDS rates in the region. Dismal social development rates are consistent with the SPDC's spending on health and education programs for the people, which is less than 1% of GDP. Instead, the SPDC spends 40% of the state's budget on the military, which uses heavy-handed tactics to suppress dissent from the people. (*Stats from presentation by Shan Women's Action Network at the "Trade, Investment and Sustainability between China and the Mekong Region" conference co-sponsored by Heinrich Boll Foundation and National Development and Reform Commission in Beijing, 26-27 November, 2009*)

Despite Burma's abundance of natural gas that is exported to neighboring countries, its citizens do not have access to reliable gas or electricity supplies. The comparison to the situation in countries receiving Burma's gas is striking: per capita, Burma consumes less than 5% of electricity consumed by Thailand or China. In Arakan State, from which the Shwe gas flows, 90% of households use candles for light and firewood to cook. Yet reports indicate that all of the Shwe gas will be shipped to China. Residents have expressed deep dissatisfaction with this: "Although we have a lot of gas we get only two hours of electricity in Sittwe. In this situation how can we develop our industry? Without industry, how can we develop our state? Actually the gas money should go to different sectors like health, education, economy and social development. But in this project, there isn't any plan for that. That is why we are against this Shwe gas project." - *U Aye Tha Aung, Secretary of the Committee Representing People's Parliament and Secretary of the Arakan League for Democracy, Corridor of Power, p.17*

Environment

High risk of environmental destruction. This project bisects the Indo-Burma biological hotspot and runs through several ecologically sensitive areas across Burma. These sensitive areas include mango swamps, estuaries, small rivers, and a national marine park in Arakan State; as well as the Mizoram-Manipur-Kachin rainforests, Chin Hills-Arakan yoma montane forests, Irrawaddy dry forests, Irrawaddy moist deciduous forests, Northern Indochina subtropical forests, a wildlife sanctuary, and a bird sanctuary as they move across central Burma to Yunnan. These vulnerable forests are critical to storm protection and are home to endangered species.

Without proper preparation and environmental management, pollution from offshore natural gas projects can destroy marine life, further decimating the livelihoods of communities near the project. Emissions from drilling rigs and natural gas flares can also cause air pollution. *As no Environmental Impact Assessment has been released for the Shwe project, it is unclear whether the project will employ environmental management systems and adequate pollution prevention technology.*

Human rights

Historically, when the Burmese army provides security for extractive industry and infrastructure projects in Burma, local people are subject to abuses by these forces such as **forced labor, sexual assault, forced relocations, loss of livelihoods, land confiscation** and **inadequate compensation**. This has been well documented during construction of the Sittwe-Rangoon highway, the Kyauk Phyu-Rangoon road and the Yadana/Yetagun pipelines.

As of September 2009, up to 13,200 soldiers in 44 army divisions were already positioned along the pipeline route, including ethnic areas where the Burmese army did not previously have a presence (*Corridor of Power, p.20*). Although the project is still at a very early stage, fact-finding missions to the pipeline-affected area by the Shwe Gas Movement has documented human rights violations in Kyauk Phyu Township since the start of construction in October 2009.

Land confiscations: Land has been confiscated by the Burmese military for the project. Some of these farmers have been forced to sign documents handing over their land to the project and have been given no compensation. Thus far over 1000 acres of land have been confiscated in Kyaukphyu Township alone. The following are the villages in Kyaukphyu Township where involuntary land confiscation occurred and the forced relocation took place: *Gown Chewin, Thit Pate Taung, Saba Shar, Pone Nay Gyi, Lake Khamaw, Kalar Bar, Gaw Da*

Forced relocations: Moreover, people in Kyaukphyu Township who are living along the pipeline route have been told to move their houses before April 2010. They do not have any place to move to and haven't received any compensation. As a result, farmers cannot cultivate their paddy fields and small plantations will be unable to sustain their livelihood and directly endangers the prospects of their children's education.

Loss of livelihood: A majority of the local population are either farmers or fishermen. Due to offshore surveying and what appears to be early construction, fishing areas are also restricted by the Burmese navy, and as such fishermen cannot earn their daily livelihood. Boatmen are forced to act as porters by the navy.

The Shwe Gas Movement has received more disturbing information, including forced labor, which currently is being confirmed, but fits in with above patterns from this project and other development projects in Burma.

Gender aspects

Military rape of ethnic women has been well documented in Burma. In 2001, the Shan Women's Action Network (SWAN) released the report, "*License to Rape*," which documents the widespread and systematic rape of ethnic women in Burma committed by military personnel. That investigation, as well as subsequent monitoring from SWAN has shown that military rapes are committed with impunity, as victims seldom have access to justice or recourse. Often, women and communities are threatened and punished if they complain about sexual assaults.

Other issues

Corruption:

The sale of natural gas is the largest single income earner for the junta, accounting for nearly 50% of export revenues in 2008-09 for a total of US\$ 2.4 billion. The revenues from the oil and gas sector in Burma have no independent oversight and are recorded in Burma's public accounts in *kyat* at the official exchange rate of 6 kyat to US\$ 1 while the market value of the kyat stands at approximately 1,200 kyat to US\$ 1. This massive discrepancy means that the majority of gas revenues are not recorded in Burma's official budget, leaving them available for discretionary spending and making it impossible to trace how the majority of Burma's hydrocarbon earnings are being spent.

The sale of the Shwe gas and pipeline transit fees will provide the junta with an estimated US\$ 1 billion annually for 30 years, further fueling this corrupt system.

Illegal Weapons:

The junta has a past track record of using revenues from the sale of natural gas to purchase weapons for military campaigns used against the country's own people. Reports have shown that the regime has been on an accelerated arms-buying spree since 2001, roughly when it received the first gas revenues from the Yadana pipeline in eastern Burma.

The Daewoo consortium and CNPC further enable the military regime to purchase arms. In Daewoo's case, this went as far as the company fabricating export documents in contravention of South Korean law in order to illegally export military machinery to Burma in 2002. As a result, in November 2007 Daewoo International President Lee Tae-yong and Daewoo's former managing director were convicted along with 12 other high-ranking officials from South Korean companies of illegally exporting weapons technology and equipment to Burma. They were given lenient sentences but not before the facility, used to construct artillery shells and other illegal weaponry, was completed.

What must happen

The Shwe Gas Movement, comprised of community organizations representing affected peoples throughout Arakan State, is calling for:

- The protection of **community rights**, including Free, Prior and Informed Consent, publicly-available and comprehensive impact assessments, mechanisms for reporting abuses established, adequate compensation);
- **Standards of investment are met**, including compliance with international human rights laws, environmental treaties, International Labour Organization agreements, OECD Guidelines and host country laws by project investors, implementers and employers.
- **Transparency and accountability are in place**, which means publicly-disclosing revenue and contract details, including key information about dealings with the military regime.

If these standards cannot be met, SGM is calling for:

- The Daewoo International consortium, CNPC and their host countries to **suspend the Shwe Gas and Pipelines projects**;
- Shareholders, institutional investors, and pension funds to **divest their holdings** in these companies;
- Banks to **refrain from financing** these projects

applicable policies

Burma has no laws to protect human rights or the environment, and its army, which will clear areas and provide security for the pipelines, repeatedly acts with impunity.

updates

Oct 06, 2010

Pipelines: In March 2009 Su Shifeng, chief consultant of China Petroleum Pipeline Bureau, a unit of CNPC, announced that preliminary work on the dual pipelines would begin in the fourth quarter 2009. In August 2009, just before the planned start of construction, the Burmese military launched an attack on the Kokang militia, which controls territory near the planned pipeline route. The Kokang militia, which represents an ethnically Chinese minority from northeast Burma's Shan State, is one of the many armed ethnic groups opposing the military junta's rule. The fighting sent an estimated 30,000 refugees into China's Yunnan Province where they settled in temporary camps and with relatives. The assault and resulting refugee crisis prompted the Chinese Foreign Ministry to warn Myanmar to "properly handle domestic problems and maintain stability in the China-Myanmar border region."

CNPC began construction of the oil terminal in Kyauk Phyu Township in October 2009, according to *Oil & Gas Journal*.

On 20 December 2009 CNPC and the Myanmar Ministry of Energy signed a contract making CNPC the sole owner and operator of the crude pipeline. According to a CNPC press release, the agreement stipulates that CNPC will be responsible for construction and operation of the pipeline, while the Myanmar government will guarantee the company's ownership and provide security. The Myanmar government will grant CNPC-controlled South-East Asia Crude Oil Pipeline Ltd. tax concessions and customs clearance rights.

CNPC announced that it began construction of the dual pipelines in Burma on 3 June 2010, although it did not mention in what part of the country this took place.

In September 2010 CNPC announced that it commenced construction of the dual pipelines on the China side in Kunming, Yunnan Province. The pipeline will cross the Burma-China border in the Chinese city of Ruili and then continue on towards Kunming. It will terminate in An'ning, a city about 30 km from Kunming, where CNPC is building a refinery to process the oil and distribute it to various points around southwest China.

Gas Blocks: Daewoo reported that it would begin construction of the A-1 and A-3 Shwe gas blocks in September 2009, including offshore production platforms, an underwater pipeline and an onshore gas terminal in Kyauk Phyu Township on the Arakan coast.

Additionally, in October 2009 *Irrawaddy News* reported that Myanmar Petroleum Resources (MPRL), a Singapore-based company run by a Yangon businessman, is preparing to conduct seismic studies in an additional gas block in the Shwe reserve for possible exploitation at a later date.

Activism: On 28 October, the Shwe Gas Movement held a Global Day of Action Against the Shwe Gas Project. This included delivering an appeal letter written to Chinese president HU Jintao from SGM and over 100 other organizations at Chinese embassies around the world. Until date no response from the Chinese government has been received.

financial institutions involved

banks

Bank of China China -

- corporate loan
- primary banker for CNPC

Bank of Communications China -

- corporate loan
- primary banker for CNPC

Barclays United Kingdom -

- shares/bonds underwriter or manager: £389 million.
- own or manage shares in PetroChina
- source:* Barclays Hsbc And Rbs Linked To Dirty Financing For Fossil F...

China Construction Bank China -

- corporate loan
- primary banker for CNPC

China Development Bank China -

- corporate loan
- Primary banker for CNPC

CITIC Industrial Bank China

- corporate loan
- primary banker for CNPC

HSBC United Kingdom -

- corporate loan
- primary banker for CNPC
- shares/bonds underwriter or manager: £162 million.
- source:* Barclays Hsbc And Rbs Linked To Dirty Financing For Fossil F...

Industrial and Commercial Bank of China China -

- corporate loan
- primary banker for CNPC

- Syndicated loan to PetroChina: £14.2 million (February 2007)
source: Barclays Hsbc And Rbs Linked To Dirty Financing For Fossil F...

CNPC, the developer of the dual pipelines and sole purchaser of the Shwe natural gas, is a wholly state-owned company in China. However, its subsidiary CNPC Hong Kong Ltd is listed on the Hong Kong Stock Exchange. CNPC is also the parent company of **PetroChina**, in which several financial institutions hold shares, including: Aberdeen Asset Management, Barclays, Barings, Fidelity International, Hang Seng Bank, HSBC, Templeton Asset Management, and Capital Group. CNPC and PetroChina's principal bankers include: Agricultural Bank of China, Bank of China, Bank of Communications, China Construction Bank, China Development Bank, CITIC Industrial Bank, Citigroup, DBS Bank, German Bank for Reconstruction and Development, Deutsche Bank, Goldman Sachs, HSBC, Industrial and Commercial Bank of China, Morgan Stanley and UBS.

Daewoo International, the developer of the A-1 and A-3 natural gas blocks, receives loans from the Korean Asset Management Company (KAMCO), as well as international finance institutions such as Germany's AKA Bank. Some of Daewoo's major shareholders include KAMCO with 35.5%, Korea Development Bank with 12%, the Export Import Bank of Korea with 11.5% and Germany's Allianz with 2.8%. Several international financial institutions have underwritten share and bond issuances for the company.

ONGC Videsh is wholly-owned by ONGC Limited, a Bombay stock exchange listed company. Although ONGC is 74% owned by the Indian government, financial institutions such as Capital Group and Life Insurance Corporation of India own shares in the company. The State Bank of India was listed as ONGC's principal banker in its 2007-2008 annual report. Several international financial institutions have underwritten share and bond issuances for the company.

Korea Gas Corporation (KOGAS) is publicly-listed with many institutional investors holding share; including Barclays, Batterymarch Financial Management, Daiwa Group, Fidelity International, Norges Bank, Pictet & Cie, Principal Financial Group, StarCapital Corporation and Vanguard Group. Additionally, KOGAS has secured loans from international lenders such as Bank of Nova Scotia, Bayerische Landesbank, BNP Paribas, Citigroup, Commerzbank, Fortis, ING, Korea Development Bank, Mizuho Corporate Bank, Nordea Bank, Societe Generale and United Overseas Bank.

Gas Authority of India Ltd (GAIL) is 57% owned by the Indian government and other significant shareholders include the Life Insurance Corporation of India. GAIL has issued shares on the Bombay Stock Exchange and bonds with underwriting assistance from several banks, including Citigroup, HSBC, ICICI Bank, JM Financial and Morgan Stanley.

governance

applicable regulations

Burma has no laws to protect human rights or the environment, and its army, which will clear areas and provide security for the pipelines, repeatedly acts with impunity.

companies

China National Petroleum Corporation (CNPC) China

Daewoo International Corporation South Korea

Daewoo International is a Korean trade and overseas investment corporation. Its businesses include trade, manufacturing, sales, distribution and resource development. Daewoo operates more than 60 representative offices and 25 subsidiaries and has about 6,000 clients all over the world.

Gas Authority of India Limited (GAIL) India

GAIL (India) Limited, is a major Indian natural gas company, integrating all aspects of the Natural Gas value chain (including Exploration & Production, Processing, Transmission, Distribution and Marketing) and its related services.

Korea Gas Corporation (KOGAS) South Korea

KOGAS is Korea's state-owned gas provider and the country's sole importer of liquified natural gas (LNG). It produces and supplies natural gas, purifies and sells gas-related by-products, builds and operates production facilities and distribution network, and explores, imports and exports natural gas for domestic and overseas markets.

ONGC Videsh Limited (OVL) India

ONGC Videsh Limited (OVL) is a wholly owned subsidiary of Oil and Natural Gas Corporation Limited (ONGC) - the flagship National Oil Company of India. The primary business of OVL is to prospect for oil and gas acreages abroad, including acquisition of oil and gas fields, exploration, development, production, transportation and export of oil and gas. As of September 2008, OVL had a presence in 37 Exploration & Production projects in 18 countries.