Crude beginnings: 

An assessment of China National Petroleum Corporation’s environmental and social performance abroad

Friends of the Earth

With contributions from The Altai Project, AmazonWatch, Conflict Risk Network, Fund for 21st Century Altai, Pacific Environment, Revenue Watch Institute, Save Ukok Coalition and Shwe Gas Movement
Crude beginnings:
An assessment of China National Petroleum Corporation’s environmental and social performance abroad

Author:
Adina Matisoff, Friends of the Earth

For more information or for copies of the report contact:
Michelle Chan
Friends of the Earth
311 California St., Ste. 510
San Francisco, CA 94104
415.544.0790 (p)
mchan@foe.org

We gratefully acknowledge the generous support of the Ford Foundation, the CS Mott Foundation, the Rockefeller Brothers Fund and the JMG Fund.

The views expressed in this report are those of Friends of the Earth and do not necessarily represent those of contributing writers, individual contributors to Friends of the Earth or the funding organizations.

February 2012
## Table of contents

**Executive summary** 3  
**Introduction** 6  
**CNPC in the world** 7  
  Company overview 7  
  Going global 7  
  Motivations for going abroad 8  
  Encountering risks 9  
  Future plans 9  
**CNPC & environmental and social governance** 10  
  CNPC’s internal policies and management structures 10  
  Government oversight relevant to CNPC 16  
  Input from research institutes and academics 22  
  The Chinese media 24  
  Additional sources of corporate governance oversight 24  
**CNPC & environmental and social performance** 29  
  Stakeholder engagement 29  
  Environmental record 30  
  Corruption and revenue transparency 31  
  Operating in conflict-affected areas 34  
  Labor relations 35  
  Philanthropy and social programs 37  
**Case studies** 38  
  SAPET Block 113: The territorial reserve of uncontacted indigenous peoples, Peru 38  
  CNPC’s involvement in Iraq’s EITI process 40  
  Conflict Risk Network engagement with CNPC, Sudan 42  
  Conflict at CNPC’s pipelines project in Myanmar (Burma) 44  
  Local impacts and labor relations at Hope Oilfield, Aktobe, Kazakhstan 46  
  Altai gas pipeline, Russia 49  
**Conclusion** 52
Executive summary

China National Petroleum Corporation is one of the world’s largest oil companies and currently has about 130 subsidiaries operating in 29 countries throughout the globe. As CNPC’s global portfolio rapidly grows, it is facing an increasing number of political, social and environmental risks that are typical for international oil majors. However, despite the company’s size and reach, it does not have adequate environmental and social governance systems to effectively address these risks. Internationally, there is demand to know how this growing global player addresses non-financial risks of its activities. This is the first independent report that attempts to assess the state of CNPC’s environmental and social policies and practices across its global portfolio.

A number of CNPC’s overseas projects are located in environmentally sensitive areas; for example its tar sands extraction in Canada and Venezuela poses significant risks to local water resources, forests and the global climate, and at least two of its oil pipelines will traverse international biodiversity hotspots. In terms of social issues, CNPC is particularly vulnerable to corruption risks, with investments in seven of the 10 most corrupt countries in the world. Likewise, many countries in which CNPC invests, including Algeria, Chad, Iraq, Libya, Myanmar (Burma), Nigeria, Sudan and Tunisia, have been affected by varying degrees of violent conflict. Finally, CNPC and other Chinese companies have come under criticism for not hiring enough local workers, particularly for management positions, and thwarting efforts to create independent trade unions.

The company has made broad statements that reflect the belief that the environment and society are important factors in the company’s continued development, both at home and abroad. But as yet CNPC has not developed policies or designated personnel at the corporate level to specifically govern the environmental and social conduct of its overseas subsidiaries. In the absence of such personnel, CNPC’s in-house research institutes serve as the company’s eyes and ears when it comes to understanding international trends, conditions and competition; and they sometimes represent the company to international stakeholders.

CNPC has several environmental programs, including energy efficiency and pollution control efforts, but according to publicly available information it does not require overseas subsidiaries to set up environmental management systems or use environmental impact assessments. In terms of labor-related policies, the company maintains that it complies with local labor laws. It has a stated goal of hiring 90 percent local employees in overseas operations, although it has not reported on its progress towards this goal. CNPC has made relatively more progress in terms of establishing health, safety and environment (HSE) departments; it operates several regional HSE offices around the world and has recently taken steps to enhance the security and safety of its overseas workers. With respect to corporate social responsibility (CSR), the company’s activities have largely focused on philanthropy to charitable causes in host countries in which subsidiaries have long-term investments, as well as public reporting.

CNPC’s underdeveloped corporate strategy regarding overseas environmental and social issues does not reflect international best practices, nor does it provide fundamental safeguards for society, workers and the environment. Such best practices include performing and publicly disclosing environmental and social impact assessments, involving affected communities in decision-making, allowing greater public accountability for environmental protection, establishing and implementing anti-corruption policies, and recognizing independent trade unions.

Externally, there are many bodies that could potentially exert influence over the company’s environmental and social conduct overseas. Governmental authorities, such as the State Council, the Ministry of Foreign Affairs, the Ministry of Commerce and the State Assets Supervision and Administration Commission
(which oversees state owned enterprises) have issued various guidelines related to Chinese companies’ environmental and social conduct as they expand abroad. In specific terms, these official guidelines mostly stress the importance of adhering to local laws. However, CNPC’s ministerial status within the government often means that the company is at the same political level as the agencies that are charged with regulating it.

Other potential sources of influence on the company include Chinese think tanks and academics, which have provided advice and analysis on issues related to Chinese overseas investment; overseas stock exchanges, which can require certain types of disclosure on environmental issues; international investors, which can engage in shareholder dialogues; and international social and environmental voluntary standards and norms. Similarly, CSR consultants, civil society organizations, and international oil companies involved in joint ventures theoretically also can play an influential role. However, so far all of these actors have had limited impact on the company’s environmental and social performance overseas.

The case studies presented in this report show that, to date, CNPC subsidiaries are taking the lead in terms of improving the company’s environmental and social performance. The company’s subsidiaries are on the frontlines confronting challenges such as conflicts with communities, corruption, and operating in environmentally sensitive or conflict-affected areas. In some cases, such as Peru and Iraq, local subsidiaries have innovated solutions without set policies from above, and have even gone beyond what other international oil majors have done. However, in other cases — such as Sudan, Myanmar (Burma), and Kazakhstan — CNPC subsidiaries have not effectively mitigated environmental and social risks associated with their oil extraction activities. With stronger corporate policies that draw both from the experiences of subsidiaries and incorporate international best practices, CNPC can be in a better position to improve its overseas performance in a substantive and systematic way.
Introduction

Oil extraction is an environmentally and socially risky endeavor. For more than a century, international oil companies such as ExxonMobil, Shell and BP have developed oil and gas projects around the world, which have degraded ecosystems, violated environmental laws, marginalized local communities, fueled local conflict, and more. Over the years, international norms and best practice initiatives have been developed to avoid and mitigate such risks, and many resource companies have developed their own environmental and social governance systems as a matter of corporate social responsibility and risk management. On both the company and sector level, the oil industry has worked with governments, shareholders and civil society organizations to develop social and environmental policies and practices.

China National Petroleum Corporation is a relative latecomer to investing in international projects, and the majority of its projects and acquisitions are occurring on a much smaller scale than those of the leading international oil companies. From its initial overseas investments nearly 20 years ago, CNPC’s global portfolio has grown rapidly; today it has investments in at least 29 countries around the world, from Kazakhstan to Sudan to Peru. Like its international peers, CNPC is exposed to numerous political, environmental and social challenges, since many of its projects are in countries with underdeveloped environmental standards and poor governance. Yet there is little publicly available information about how CNPC and its subsidiaries address non-financial risks of their activities, a situation that can limit corporate accountability, hamper investor decision-making and exacerbate controversy. At the same time, information contained in the company’s corporate social responsibility reports and other sources suggests that it may not understand stakeholder expectations for addressing non-financial risks.

To date, no independent report has sought to assess the state of CNPC’s environmental and social poli-
CNPC in the world

Company overview

China National Petroleum Corporation is China’s largest oil and gas producer and supplier with RMB 2 trillion in total assets (US$ 316.7 billion) and RMB 1 trillion (US$ 158.3 billion) in revenues in 2010.1 From its roots in the 1950s as China’s Ministry of Petroleum Industry, which supervised the exploration and development of oil and gas resources, it is today one of the country’s most valuable state-owned integrated energy companies and a key player in the development of China’s international petroleum policy. CNPC’s businesses include petroleum exploration and production, transportation, refining and marketing of crude oil and natural gas, oilfield services, engineering construction, petroleum equipment manufacturing and new energy development, as well as capital management, finance and insurance services.

In 2011, Mr. Jiang Jiemin was the chairman of the CNPC Group, a position he has held since 2004. Prior to this post, he held a series of government and petroleum industry positions, including the Founding Director and Vice President of PetroChina Company Limited, CNPC’s largest publicly-listed subsidiary and the face of the company on global stock markets.

CNPC employs more than 1.5 million workers, 80,000 of which are foreign employees working at overseas projects.2 As of the end of 2010, CNPC had roughly 130 subsidiaries, including 28 companies that have upstream exploration and production business and more than 20 companies providing specialized services.3 These subsidiaries had 81 upstream projects in 29 countries, provided oilfield services and engineering construction in 55 countries, and sold petroleum products in 88 countries around the world.4

In 1999, CNPC transferred its domestic assets and liabilities to its newly-created subsidiary PetroChina, and kept all 10 of its international projects at the time (in Canada, Peru, Kazakhstan, Sudan, Venezuela and Thailand). This split allowed CNPC to raise international capital by selling 10 percent of PetroChina’s equity in an initial public offering in the United States, where U.S. institutions were prohibited from investing in Sudan and other countries subject to U.S. sanctions. However, as evidenced by the many shareholder dialogues with PetroChina on Sudan-related issues, many PetroChina investors view the distinction between PetroChina and its parent company as functionally artificial. In addition, PetroChina recently has evolved from a company with only China assets, to one with an international portfolio. Through PetroChina’s subsidiary, PetroChina International, the company is active in countries such as Iraq and Canada. Another PetroChina subsidiary, Kunlun Energy (formerly CNPC Hong Kong), owns oil fields in Kazakhstan, Oman, Peru, Thailand, Azerbaijan and Indonesia.

Going global

CNPC was an early leader among Chinese oil companies in terms of global expansion. As early as 1991, one of the company’s oilfield construction companies won a contract to build the Indus Highway Project in Pakistan, and by 1993 the company began its first overseas exploration and production projects in Canada, Peru and Thailand. While most Chinese companies did not invest overseas until 2000, by the turn of the century CNPC had already made deals in six regions of the world, including Africa, Central Asia and Russia, the Middle East, North America, South America and Southeast Asia. To date, CNPC’s most substantial investments have been in Central Asia, mainly Kazakhstan; Africa, where it owns the rights to several oilfields in Sudan; and the Middle East, where it has recent large acquisitions in Iraq.5

As CNPC goes global, it aggressively seeks equity exploration and production projects, competing with

---

2 CNPC 2010 Annual Report, p.10.
international oil companies such as Shell and BP. The company also seeks contracts to provide oilfield services on projects in which it does not hold equity, but rather are owned by other oil companies. This strategy of separating oilfield services from exploration and production abroad has been called “walking on two legs.” This makes it unique among the international oil majors, which often do not provide oilfield services to projects that they do not own. But the strategy has paid off for CNPC: in 2010 the company had 597 crews providing oilfield services in 55 countries.

As a testament to its growing global stature, CNPC ranked fifth in Petroleum Intelligence Weekly’s list of the world’s top 50 oil companies in 2010, based on oil reserves, oil production, natural gas reserves, natural gas output, refinery capacity, and product sales volumes. The company was also in the top 10 of Fortune Magazine’s 2011 Global 500 in terms of sales revenues, up from 46th in 2005.

Motivations for going abroad

CNPC is compelled to go abroad in order to increase its oil supplies and profits and become globally competitive with better-established international oil majors. At the same time, energy security has become an important reason for the company’s government stakeholders to get behind CNPC’s overseas expansion.

Historically, the majority of CNPC’s oil supply has been from Chinese deposits, accounting for roughly 60 percent of China’s total domestic production. However, domestic oil production is flattening out, and company experts estimate that China’s proven reserves will dry up within the next 10-15 years. At the same time, China’s domestic oil consumption is rising because of increased demand from commercial cargo transport and personal automobile use (China became the largest auto market in the world in 2009). As fewer supplies encounter higher demand, the International Energy Agency projects that China’s oil imports will rise to 79 percent of its total usage by 2030. CNPC must meet this demand by looking beyond China’s borders.

Another reason for CNPC to go abroad is to become a globally competitive brand. Becoming an international brand is a national goal laid out by the Chinese government in its “Going Out” policy at the turn of the century, and also one that CNPC has been seeking to fulfill since it began sending crews abroad in the early 1990s. By going global, CNPC gains technical experience from cooperating with other companies, learns to bid for competitive oil contracts and increases its potential to make profits. In recent years, CNPC has not only tried to increase the number of exploration and production concessions it owns, but also boost the scale of these projects. For example, CNPC has made acquisitions of large oil and gas projects in Iraq, and made record-breaking deals in Kazakhstan.

Finally, the Chinese government, which is CNPC’s most important stakeholder, is concerned with securing a stable and consistent energy supply while the country’s economy continues to grow. Therefore it is in CNPC’s interest to align its objectives with that of government officials. Starting from the late 1990s after China became a net oil importer, the country’s top leadership began to recognize the importance of overseas oil to long-term sustainable economic growth (through some convincing by CNPC). In 1997, CNPC reportedly pitched then-president Jiang Zemin on the company’s global strategy and gained his endorsement. Jiang was quoted saying, “Engaging in international [petroleum] cooperation is essential because petroleum resources on a per capita basis are scarce in China. You [CNPC] should strive to open the international petroleum market. In particular, you should go to developing countries such as those in Africa and Central Asia to look for petroleum because these countries are friendly to us. The petroleum industry

---

6 Presentation by representative from CNPC’s Global Resources and Strategy Research Institute, Washington DC, June 2011.
An assessment of China National Petroleum Corporation’s environmental and social performance abroad

[9] China’s petroleum industry should walk on two legs, namely base its development on domestic resources and also utilize international petroleum resources.9

Encountering risks

After almost 20 years of investing abroad, CNPC is acutely aware of the fierce competition and serious political and economic challenges it faces overseas. In particular, representatives of the company have noted its struggles with oil producing nations such as Ecuador that have taken steps to re-nationalize their energy sectors and the uneasiness in the West about the “China Threat” to control global oil supplies.10 In addition, CNPC has considerably less overseas experience than its international peers, some of whom have been globally active for more than a hundred years and have already secured the most lucrative and accessible oil blocks. Now, with the world’s oil supplies dwindling, CNPC has been left with the dregs — concessions that are more difficult, risky and expensive to develop. Some of CNPC’s investments pose high environmental and social risks because they are located in frontier areas, conflict zones, and countries with underdeveloped safeguards and poor governance.11

Future plans

CNPC’s exposure to overseas risks is set to increase, since the company estimates that overseas output will account for half of its total production by 2015. In particular, CNPC plans to scale up investments in Kazakhstan and Turkmenistan, increase overseas refining capacity, and spend US$ 60 billion on mergers and acquisitions through its PetroChina subsidiary over the coming decade.12 But at the same time, 2011 was a sobering year for CNPC; in Sudan’s volatile South Kordofon region, rebel groups killed a CNPC oil worker, the fifth CNPC employee reported murdered in that country since 2008. Separately, social unrest in Libya forced the company to evacuate employees from its oil projects and later abandon some oil blocks in that country and in Niger.13 According to Wang Jinyan, research fellow at the Beijing Foreign Studies University, “North Africa’s unrest and Libya’s situation in particular are testing China’s ‘go out’ strategy...This will have a definite impact on the future direction of our overseas investment.”14

As CNPC prepares to scale up its overseas investments in the midst of environmental, social and political challenges, what policies and mechanisms are available to help the company avoid or mitigate risks? To what extent is environmental and social governance a priority within CNPC and its subsidiaries?

---

11 See the case studies section of this report for information about risky projects in which CNPC invests.
13 For more information, see the “operating in conflict-affected areas” section of this report.
CNPC and environmental and social governance

**CNPC’s internal policies and management structures**

This section describes CNPC’s internal environmental and social governance pertaining to its overseas investments, specifically the structure of its overseas operations, major subsidiaries, finance mechanisms, research institutes and functional departments. Next, the policies and mechanisms through which CNPC addresses environmental and social governance issues are covered. These include the company’s broad strategy for handling environmental and social challenges, pre-project risk assessments, its health, safety and environmental management system and its corporate social responsibility approach.

**Overseas business structure**

CNPC’s overseas business is managed through an international branch and an international department within CNPC headquarters, both of which report to a senior vice president of the company. According to the director of CNPC’s Institute of Overseas Investment, one of the company’s in-house research centers, this makes CNPC a “home-based” national oil company, in contrast to more “internationalized” national oil companies that do not separate out their overseas business from the major operations departments at headquarters. CNPC’s international branch is called CNPC International, and has set up regional project companies in Latin America, Africa, Central Asia, East Asia and the Middle East.

CNPCI’s roots go back to the China National Oil and Gas Exploration and Development Corp. (CNODC), which was formed in 1984 to manage CNPC’s burgeoning cooperation with foreign oil companies who were jointly developing CNPC’s domestic petroleum assets. In 1993 all CNPC subsidiaries were encouraged to invest abroad in order to advance technically and become more profitable. However, CNPC upper management was concerned that subsidiaries often acted in haste, without notifying CNPC headquarters of important investment decisions. In response, CNPC charged CNODC with overseeing all overseas business and within it established the CNPC International Exploration and Development Cooperation Bureau to implement the work. The subsidiary was eventually registered abroad as CNPC International (although CNODC separately still has responsibility for CNPC’s cooperation with foreign oil companies in the company’s domestic business).

Specifically, CNPC International acts as CNPC’s gatekeeper and clearinghouse for overseas business. This function is carried out through a two-tiered contract system (See Figure 1: CNPC’s decision-making process for overseas projects) in which CNPCI is delegated the power to conduct project evaluations, write project proposals, and negotiate, sign and execute contracts approved by CNPC’s leadership. In executing the contract, CNPCI either manages the project directly through setting up a project company [as of 2010, there were 39 CNPCI project companies around the world, for example, the CNPCI (Nile)]

---

16 As explained by a CNPC researcher, Washington, DC, June 2011.  
17 Kong, B., 2010, p.75-78.
LTD. in Saudi Arabia and/or passes service contracts to one of CNPC’s subsidiaries through a bidding process. (See Table 1: CNPC’s major overseas subsidiaries.)

PetroChina’s international investments, through its PetroChina International subsidiary, are jointly owned with CNPC, which opens the door to CNPCI oversight. However, with this more convoluted process it is unclear if the overseas projects of PetroChina International are approved in the same way as other CNPCI projects.

**Major overseas subsidiaries**

As of 2010, CNPC reportedly had 131 subsidiaries, including 28 involved in upstream exploration and production and more than 20 companies providing specialized services. As noted, after CNPCI signs the company’s overseas project contracts, it decides which subsidiaries will fulfill these contracts. CNPC’s most important subsidiaries in each line of its business are listed below:

In terms of their engagement with local communities and other outside stakeholders about environmental and social issues, CNPC subsidiaries have been more amenable than CNPC headquarters. For example, in Peru, CNPC’s SAPET subsidiary relied heavily on local Peruvian organizations to understand the operational and security risks of oil exploration in an area populated by uncontacted indigenous tribes before deciding to revise the project. Similarly, CNPCI (Nile) Co. Ltd. in Sudan has sent company health, safety and environment managers to participate in various corporate social responsibility meetings that have been held both in-country and abroad. Despite these examples of subsidiary engagement, it is unclear if CNPC subsidiaries have designated staff for liaising with the public, as no contact information is made available through the CNPC global website, corporate social responsibility reports or other means.

**Financing**

According to CNPC’s website, the company provides in-house financial services, including asset management, loans and insurance, equity financing, mergers and acquisitions, and more through the company’s fully-owned subsidiary, CNPC Asset Management Co., Ltd., and its holding subsidiary, China Petroleum Finance Co., Ltd. Notably, the company’s financial services arms provide capital for the company’s overseas operations. This has included direct loans to oil producing governments or other national oil companies. For example, in 2009 PetroChina extended a US$ 1 billion loan to PetroEcuador as pre-payment for oil deliveries. Additionally, CNPC has benefitted from loans from China’s policy banks, and from these institutions’ oil-backed loans to oil producing countries.

<table>
<thead>
<tr>
<th>Subsidiary</th>
<th>Services/Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>CNPC International</td>
<td>Project proposal, contract execution, designates implementing company</td>
</tr>
<tr>
<td>BGP Incorporated</td>
<td>Geophysical prospecting</td>
</tr>
<tr>
<td>Great Wall Drilling Company</td>
<td>Well drilling; workover services markets</td>
</tr>
<tr>
<td>China National Logging Corporation</td>
<td>Logging and well testing</td>
</tr>
<tr>
<td>China Petroleum Engineering and Construction Company</td>
<td>Surface engineering and construction</td>
</tr>
<tr>
<td>China Petroleum Technology and Development Corporation</td>
<td>Petroleum and petrochemical material, technology and equipment</td>
</tr>
<tr>
<td>PetroChina International Co. Ltd. (Newco)</td>
<td>International assets jointly owned by CNPC and PetroChina</td>
</tr>
</tbody>
</table>

*Source: Bo Kong, p.71-76*

18 Kong, B., 2010, p.75-78.
**CNPC research departments**

CNPC and PetroChina both have in-house research institutes that conduct research relevant to the company’s business abroad. These research institutes serve as the company’s eyes and ears when it comes to understanding international trends, conditions and competition. At the same time, in the absence of personnel within CNPC headquarters designated to address overseas environmental and social governance, researchers have also represented the company to the international community. For example, researchers from the Research Institute of Economics and Technology and the Research Institute of Petroleum Exploration and Development have participated in international multi-stakeholder meetings of the United Nations Global Compact and international NGOs, while the Research Institute of Economics and Technology has also contributed articles about CNPC and China’s oil and gas sector for English language publication. To elaborate:

- The Research Institute of Petroleum Exploration and Development is a research center established under PetroChina. It houses the Global Resources and Strategy Department, a 40-person unit that concentrates on technical and business strategy issues related to the company’s overseas upstream projects, including studying the social and political conditions of the countries where CNPC operates. For example, this institute researched the 2010 BP oil spill in the Gulf of Mexico in order to understand how BP responded to an environmental crisis.\(^{22}\)

- The Research Institute of Economics and Technology is a research center established under CNPC. Of note, its Institute of Overseas Investments conducts analysis on overseas markets, trends and country conditions. Xu Xiaojie, the former director of this department, is also an academic who studies geopolitics of oil and gas, international oil and gas investment climate, risk management and the corporate strategies of China’s national oil companies. During Xu’s tenure at CNPC he wrote extensively about China’s overseas oil sector, including the 2002 English language publication *Petro-Dragon Rise: What it means for China and the World*.\(^{23}\) Other researchers within the Institute of Economics and Technology have monitored developments related to conflict in Sudan and engaged with the international community on that issue through participation in United Nations Global Compact meetings.\(^{24}\) Finally, the Institute of Economics and Technology also houses the Corporate Presentation Department, which coordinates the publication of CNPC’s corporate social responsibility reports.\(^{25}\)

In addition to providing the company with big-picture analysis, technical research and acting as the face of the company in international settings, CNPC’s research institutes also provide input into project risk assessment through CNPCI.\(^{26}\) However, despite the many roles that CNPC researchers play with respect to the company’s overseas environmental and social governance, they are not directly involved in CNPC’s operations and hence lack decision-making ability.

**Other functional departments**

The Foreign Affairs, Investor Relations and Public Relations departments of PetroChina are offered as points of contact when outside stakeholders such as NGOs, investors and the public wish to communicate directly with the company about environmental and social matters (both through the PetroChina website and by other departments of the company). However, this has not proved an effective avenue through which to engage CNPC about particular issues or projects.

\(^{22}\) Taken from comments by Mr. Chang Yuwen, Department of Global Resources and Strategic Research, Research Institute of Petroleum Exploration and Development at a forum on *New Actors in Development Finance*, hosted by World Resources Institute, New York, June 2011.


\(^{24}\) “Responsible Investment in Conflict-Affected Countries” First Expert Group Consultation Meeting, held in Istanbul, Turkey on 8 June 2009.

\(^{25}\) Author interview with CNPC researchers from the Institute of Economics and Technology in Beijing, April 2011.

\(^{26}\) Comment by a CNPC researcher, Washington, DC, June 2011.
under its ownership. For example, when a representative from an NGO in Hong Kong contacted the Public Relations Department for a comment about CNPC’s oil and gas pipeline project in Burma, the person reportedly was told that the Public Relations Department could not help because the pipeline project was owned by CNPC, not PetroChina. No contact information for an appropriate contact within CNPC was given.

CNPC has not made public such a specialized department for engaging with the public or handling grievances. According to the company’s 2010 corporate social responsibility report, in 2006 it set up an email address to communicate with the public, but this was specifically for requesting hard copies of the report. The 2010 CSR report also noted that the company established a “stakeholder engagement mechanism” in 2009; however no contact information was provided in the report, on the website or through referrals from PetroChina or CNPC research departments.

Environmental and social strategies and policy statements

According to CNPC researchers, the company has developed broad strategies that reflect the belief that the environment and society are important factors in the company’s continued development. Sustainability encompasses a three-pronged strategy that entails the following: first, the company incorporates low-carbon development into its long-term strategy; examples include research and development to commercialize new energy such as coal-bed methane, shale gas, biodiesel, oil shale and oil sands, geothermal and hydro-gas. Second, the company takes an ecological approach to improving the sustainability of its operations as it expands abroad. This approach adheres to the “dynamic development concept,” which posits that a project may have harmful impacts at the beginning of development that can be remedied at a late stage of development. The company’s ecological approach also includes “complex systems thinking,” which views energy and environment as interlinked and influencing each other. Third, sustainability should be pursued through leveraging community cooperation, CSR and renewable resource development.

In terms of CNPC’s environmental policies, the company’s ‘Environment & Society’ section of its website describes the firm’s basic health, safety and environment commitment and highlights its initiatives on the environment (including climate change, biodiversity protection, energy conservation and emission reduction), workplace health and safety, and public welfare (including the types of causes it donates to and activities in which it participates). However, specific policies are not made available.

CNPC does not disclose specific environmental policies such as those related to pollution discharge and climate change, nor whether it requires environmental impact assessments. Also, subsidiaries are not required to set up environmental management systems. One notable exception is PetroChina, which, as a requirement of being publicly listed, has formal environmental policies, implements environmental impact assessments, and also reports on some environmental performance indicators.

The company also states that it adheres to the rule of “mutual benefit for common development,” which entails respecting local customs and trying to benefit local communities through providing jobs, health care, infrastructure and volunteerism. The company does not have a publicly available policy that articulates its


28 Although these are alternative forms of energy that could help CNPC steer away from traditional petroleum, many are not clean sources of energy. For example, oil sands require intensive strip-mining and drilling activities during extraction, and production of crude from oil sands is estimated to release about three times the greenhouse gas emissions of conventional oil.

29 Taken from comments by Mr. Chang Yuwen, Department of Global Resources and Strategic Research, Research Institute of Petroleum Exploration and Development at a forum on New Actors in Development Finance, hosted by World Resources Institute, New York, June 2011.

position on issues such as conducting social impact assessments and community consent.

In terms of labor practices, CNPC published a statement in its 2010 CSR report, stating that the company complies with all host country laws and relevant international laws, conventions and customs. Its Regulations on Overseas Labor Management has not been publicly disclosed. CNPC does not have a policy on independent trade unions.

Regarding corruption, the company’s 2010 CSR report stated that it has strengthened awareness of corruption and made efforts to investigate some cases, however it does not have an anti-corruption policy.

**Health, safety and environment system**

CNPC reports that it has health, safety and environment management plans, trainings and oversight applicable to its overseas projects. Some activities included under the banner of CNPC’s HSE management include well inspections, employee safety trainings and emergency drills, health exams, disease prevention and workplace hazard monitoring and treatment, radiation screenings, water quality checks and waste treatment. According to the limited information available, in order to implement the HSE policies CNPC has an HSE department at its headquarters in Beijing, as well as at least three regional HSE companies (two in Africa and one in Central Asia) and eight HSE agencies (Sudan, Iran, Nigeria, Niger, Chad, Algeria, Indonesia and Venezuela) abroad. Notably, although PetroChina has a Board level HSE committee, CNPC does not.

In terms of outside oversight of its HSE systems, CNPC reported that it has invited international oil companies to conduct an audit. Additionally, several subsidiaries have passed ISO 9000 (quality control) or ISO 14001 (environmental management) checks, which are voluntary management frameworks for minimizing a company’s impact on the environment (not technical standards).

In recognition that security is a major issue of CNPC’s overseas operations, the company reported that it developed emergency response plans for overseas operations addressing issues such as terrorist attacks, armed riots, and personal safety and production accidents; issued terrorist prevention manuals to employees, established a team to focus on overseas security management and conducted emergency training drills.

CNPC has made some basic information about its HSE policy, implementation process, key elements and management principles available on its website. However, concrete standards around water and air pollution, environmental impact assessments, and other issues are lacking.

**Corporate social responsibility**

CNPC does not have a designated corporate social responsibility department within its headquarters and does not specify that its subsidiaries do either. However, according to a CNPC researcher, each CNPC subsidiary operating abroad is required to carry out CSR activities in countries in which it has ‘long-term’ (10 or more years) projects. CNPC’s concept of CSR is mostly oriented towards philanthropy and public relations, rather than an integral part of core business operations.

CSR subsidiaries in the field implement all aspects of CSR activities such as philanthropy and community development, including determining how much and where to spend money, and allocating funds. In the countries for which CNPC has issued country-specific CSR reports (Kazakhstan, Sudan and Indonesia) the trend indicates that the local CNPC subsidiary allocates social program funds to either the local government (such as CNPC AktobeMunaiGas’s US$ 2.9 million donation to the Kazakhstan government for poverty alleviation and other projects), or to Chinese charity or humanitarian organizations operating lo-

---

31 CNPC CSR Report 2007, p.32.
32 Author interview with CNPC researchers from the Institute of Economics and Technology in Beijing, April 2011.
cally (such as PetroChina’s donations to the Red Cross Society of China for disaster relief in Indonesia).  

In 2006, CNPC became one of the first state-owned enterprises in China to set up a corporate social responsibility reporting mechanism, which provides information to the public on CNPC’s implementation of its social, environmental and economic responsibilities (although some observers have criticized their CSR as opaque and unaccountable). According to CNPC researchers, the reporting is guided by a CSR Committee under the Chairman and is comprised of the heads of relevant departments from throughout the company, including from Health, Safety & Environment, Planning and Research, Human Resources and others. An important responsibility of the CSR Committee is to choose which overseas projects to highlight each year, based on factors such as the scale and longevity of the project, and what they anticipate the company’s stakeholders will be interested in. The report writing is spearheaded by the Editorial Office for CSR Reports of the Corporate Presentation Department of the CNPC Research Institute of Economics and Technology. Audits of subsidiary CSR projects are conducted before reports are written, and in addition to the research department mentioned above, involve the Auditing Committee of CNPC headquarters (to verify that money for CSR projects was spent appropriately) and local HSE departments of the subsidiaries (to verify information related to employees, trainings, etc.).

As of the end of 2011, CNPC had released eight CSR reports, including five company-wide reports from 2006-2010 and three country-specific reports on the company’s operations in Kazakhstan (2008), Sudan (2009) and Indonesia (2010). According to the CSR report writing department, the company plans to continue to release one CSR report each year focusing on the company’s operations in a particular country and there may be follow-up CSR country-specific reports every three to five years.

**Risk assessment**

Before CNPC undertakes overseas projects, it goes through a due diligence process as part of the two-tier contract system outlined above. Theoretically, the process can include examination of environmental and social risks. According to one CNPC researcher, multiple departments within CNPC, including various research arms and the HSE departments, have input into risk assessments before CNPC invests in a project. However, since CNPCI conducts project evaluations and forwards project proposals to the CNPC leadership, CNPCI is the most powerful internal entity guiding CNPC projects during the nascent stages. (See Figure 1: CNPC’s decision-making process for overseas projects)

A CNPC researcher noted that during this assessment process, the company considers technical, political and business risks, but made no mention of how the company incorporated environmental and social risks. CNPC does not have a publicly available policy stating that environmental and social impact assessments must be carried out. Chinese law recently required environmental impact assessments for domestic oil projects, and PetroChina has reported on its use of EIAs; however the law does not apply abroad and does not specify that this information must be carried out by an independent third-party or made available to the public.

---

36 Author interview with CNPC researchers from the Institute of Economics and Technology in Beijing, April 2011.
37 Comment by a CNPC researcher, Washington, DC, June 2011.
**Government oversight relevant to CNPC**

**Government agencies and institutions**

The Chinese government exerts control over CNPC’s overseas expansion through policymaking, administrative oversight and financial support. To date, the Chinese government has not made it a priority to monitor and regulate the social and environmental performance of Chinese oil companies abroad, although there have been initial attempts to create relevant guidelines and take administrative measures. However, these efforts have been more aspirational, as control is often frustrated by complicated power dynamics. As such, although there is great potential for the government to set and enforce environmental and social standards that CNPC and other Chinese oil companies operating abroad will abide by, the will to do so has yet to be fully realized. (See Table 2 below)

**Table 2: The following central government authorities exercise control over various aspects of CNPC as it expands overseas:**

<table>
<thead>
<tr>
<th>Authority</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State Council</strong> (中华人民共和国国务院 — “国务院”)</td>
<td>China’s cabinet, which is the highest ranking executive and administrative body within the government. The State Council holds authority over ministries and commissions, as well as direct control over CNPC.</td>
</tr>
<tr>
<td><strong>Chinese Communist Party Central Committee</strong> (党中央)</td>
<td>Controls the arrangement of top personnel and decision making at every level of CNPC and its subsidiaries, ensuring that the Party maintains ‘strategic control’ of the company.</td>
</tr>
<tr>
<td><strong>National Energy Commission</strong> (国家能源委员会)</td>
<td>A high-level body providing consultation and coordination to the State Council about the country’s energy policy and oversight of China’s national oil companies (in addition to other energy companies). The NEC is headed by Premier Wen Jiabao and First Vice-Premier Li Keqiang, along with academics, oil company executives, think tank researchers, and other agency personnel. The NEC does not meet regularly and does not handle the administration of policy.</td>
</tr>
<tr>
<td><strong>National Administration of Energy</strong> (国家能源局)</td>
<td>A vice-ministerial agency (formerly under the NDRC, but after March 2008 became a separate entity) responsible for the administration of China’s energy policy. The NAE lacks the power to control CNPC and the other big oil companies; it is below CNPC in the Chinese government bureaucratic hierarchy.</td>
</tr>
<tr>
<td><strong>National Development and Reform Commission</strong> (国家发展和改革委—“发改委”)</td>
<td>China’s macro-economic planner, which develops China’s petroleum strategy, policies and plans. Significantly, the NDRC sets the country’s oil and gas prices and has the power to approve significant overseas oil projects (over US$ 1 million), which is particularly relevant to capital-intensive oil projects.</td>
</tr>
<tr>
<td><strong>Ministry of Commerce</strong> (中华人民共和国商务部—“商务部”)</td>
<td>Sets trade quotas and issues import/export licenses for petroleum products. Internationally, MofCom’s Economic Councilors are stationed within Chinese embassies throughout the world. Anecdotally, Economic Councilors have worked to mitigate controversies involving Chinese companies in Sudan and other countries, although it is not part of their official responsibilities.</td>
</tr>
<tr>
<td><strong>The State-owned Assets Supervision and Administration Commission</strong> (国务院国有资产监督管理委员会 — “国资委”)</td>
<td>Supervises central level state-owned enterprises, including the state-owned assets of CNPC. SASAC has the authority to hire, evaluate and punish CNPC’s corporate executives under its watch. While SASAC does not interfere with the day-to-day affairs of SOEs, it has taken a leadership role in developing and promoting corporate social responsibility strategies among them and is expected to require all SOEs to publish CSR reports in 2012.</td>
</tr>
</tbody>
</table>
**Ministry of Foreign Affairs**
(中华人民共和国外交部 – “外交部”)
Conducts petroleum diplomacy abroad in cooperation with high-level officials, MoFCom, NDRC, and policy banks, but has no power, per se, over CNPC. MoFA has complained that CNPC and other Chinese NOCs rarely consult it in decisions about overseas expansion.

**The China Securities Regulatory Commission**
(中国证券监督管理委员会 – “证监会”)
Regulates companies listed on China's securities and futures markets. Since PetroChina is listed on the Shanghai Stock Exchange, it is under the supervision of the CSRC. The CSRC’s powers include formulating policies, supervising equity listings and monitoring information disclosure. However, in the case of PetroChina, CSRC’s administrative powers are intertwined with those of other government regulators because the majority of the listed company’s shares are held by CNPC. Therefore, CSRC’s control over PetroChina is limited.

**Ministry of Environmental Protection**
(中华人民共和国环境保护部 – “环保部”)
Drafts environmental protection legislation and regulations and monitors their implementation; evaluates the impact on the environment of oil and gas projects; along with other regulators, has the ability to approve new stock market listings and bank loans on environmental grounds through China’s ‘green finance policies.’

**State Administration of Foreign Exchange**
(国家外汇管理局)
Sets China’s foreign exchange rate, as well as rules for Chinese companies to access the country’s foreign reserves and repatriate overseas profits.

**China Development Bank**
(国家开发银行) and **China Export-Import Bank**
(进出口银行)
Two of China's policy banks providing financing to meet state development goals at home and abroad. Internationally, these banks provide oil-backed loans and other financing to oil producing countries and national oil companies such as Russia’s Rosneft, and Brazil’s Petrobras that facilitate CNPC’s overseas oil acquisition (referred to as ‘resources-for-loans’). Sometimes producer countries use these loans to build infrastructure projects (referred to as ‘infrastructure-for-loans’). These policy banks have also supplied loans directly to CNPC, including a US$ 30 billion loan from CDB in 2009.38

**Sources:** unless otherwise noted, Kong 2010, Jia et al 2010, author interviews

---

**Official government guidance on overseas investments**

Government ministries, including State Assets Supervision and Administration Commission, the Ministry of Commerce, Ministry of Foreign Affairs and Ministry of Environmental Protection have all begun to promulgate guidelines for Chinese companies as they go abroad. Of paramount concern is addressing competition from other firms, security threats and reputational damage, but some guidelines also cover environmental and social issues:

- **Administrative Regulations on the Security of Chinese-Funded Institutions and Personnel Abroad:** guidelines to help Chinese enterprises manage and prevent security-related risks abroad. These were released in August 2010 following a MofCom-led government effort.39

- **Guidelines for Investment in Overseas Countries’ Industries:** a list of recommended countries in which Chinese companies should invest, released every year by the MoFA with the assistance of

---


other government departments. These guidelines similarly provide advice to Chinese companies about security and other investment risks abroad.40

- **Guidelines on Fulfilling Social Responsibility by Central Enterprises**: a set of corporate social responsibility guidelines for national state-owned enterprises. Issued by SASAC in January 2008, the guidelines encourage Chinese SOEs to be law-abiding; protect the environment and interests of employees; carry-out social welfare programs; establish CSR monitoring and reporting systems and learn from international standards on social responsibility.41 Additionally, in August 2008 SASAC stated that Chinese SOEs operating abroad should comply with all international rules and local laws, and projects should be “win-win.”42

- **Principles Governing the Activities of Foreign Investment Firms**: a set of nine principles for overseas companies. Issued by the State Council in October 2007, it stresses the importance of mutual respect and benefit; compliance with all local laws and regulations; fulfilling social responsibility to protect the rights and interests of local labor, the environment and local communities; support sustainable livelihoods and promote a positive image for Chinese companies going abroad.43

- **China Export-Import Bank Guidelines for the Environmental and Social Impact Assessment of Loan Projects**: standards that specifically govern transactions financed by the China Exim bank. These cover certain CNPC projects, such as the company’s US$ 1 billion gas pipeline in Tanzania.44

China Exim Bank publicly released its revised environmental assessment guidelines in 2008, and they require Chinese companies applying for a loan from the bank to follow all host country laws and conduct environmental impact assessments, while also reserving the bank’s right to recall the loan on environmental grounds.45

Additional environment-specific guidelines from the Chinese government have been in the works since 2008, namely a set of environmental guidelines for Chinese overseas companies that is being spearheaded by the MEP with the support of MoFCom and other relevant ministries. A draft of the guidelines released by the Global Environmental Institute in mid-2011 revealed that the guidelines, although far from best practices, give a nod to the importance of environmental impact assessments, consulting affected communities and other issues that frequently arise abroad.46 As of the end of 2011 the guidelines, held up by the process of multi-ministerial approval, had yet to be released.

A key theme running through many of the guidance documents, including the SASAC and State Council guidelines, is the need for Chinese companies operating abroad to comply with all host country laws. Compliance with relevant regulations is a common element in the Chinese concept of CSR (as opposed to international concepts of CSR, which tend to stress activities that “go beyond” legal requirements); however simply abiding by host country laws often is not adequate to address complex environmental and social risks associated with resource extraction abroad. Notably, the China Exim Bank and the draft MEP/MoFCom environmental guidelines both stipulate that international or Chinese standards should apply if host country laws are inadequate. The reliance on international norms may be a more helpful risk management strategy.

---

40 Kong, B., 2010, p.149.
46 Global Environmental Institute, 2011, p. Appendix.
Finally, efforts to address reputational risks have, in many cases, focused on the idea that Chinese companies need to better communicate the positive impact of their businesses. For example, SASAC’s *Guidelines on Fulfilling Social Responsibility by Central Enterprises* includes a CSR disclosure component; moreover, the agency has developed CSR trainings and is set to require all SOEs under its control to publish CSR reports in 2012. However, promoting CSR activities to address reputational risks does not necessarily help companies integrate environmental and social standards into their core business operations, as CSR departments are seldom involved in company decision-making.

**Complicated power dynamics**

The various attempts to govern CNPC’s overseas activities are sometimes frustrated by the complicated power dynamics between CNPC and individual government ministries. CNPC is one of roughly 40 Chinese SOEs within a government-designated ‘strategic sector.’ This special categorization refers to SOEs that operate in sectors that are deemed crucial for China’s national economy and security, including oil and petrochemicals, defense, power generation and distribution, telecommunications, coal, aviation, and shipping. In December 2006, Li Rongrong, then-chairman of SASAC, stated that the government, through SASAC would retain “absolute control” over these seven sectors. However, CNPC and its fellow oil company Sinopec, have ministerial-level status within the government, which means that they report directly to China’s State Council and are at the same level in the government hierarchy as ministries such as SASAC that are charged with regulating and overseeing the company. (See Figure 2: CNPC’s relationship to the Chinese government)

This bi-polar government power hierarchy has made it difficult for individual government departments to regulate CNPC. One example is the on-going struggle between China’s oil companies and the National Development and Reform Commission over oil and gas prices; NDRC sets benchmark gas prices for the Chinese retail market, while the oil companies must contend with price volatility in the international crude markets. Another example, more specific to overseas concerns, involves MoFA’s 2007 decision to take Sudan off its list of countries recommended by the Chinese government for international investment. This occurred ahead of the Beijing Olympics after intense international pressure about the Khartoum government’s human rights abuses. However, CNPC, which had been investing in Sudan since the 1990s, continued its operations unabated.

**More promising regulatory potential**

Where Chinese government ministries fall short with CNPC, the State Council and Chinese Communist Party Central Committee, which together represent the highest ranks of China’s party and state apparatuses, are better equipped to regulate. Recently, these two governing bodies put pressure on CNPC in response to the company’s mishandling of domestic environmental and social issues. In November 2011 the two bodies ordered CNPC to form a board of directors in an effort to improve its accountability. Jiang Jiemin, the company’s current general manager, was to become the Chairman of the Board. Zhou Jiping, who will eventually take over as CNPC’s general manager, was also named a board director.

---


51 Kong, B., 2010, p.149.


members of the board were not disclosed, neither was any information released about representation from the government and independent organizations.

On one hand, the decision to form the board can be seen as part of an on-going process by the government to reform the structure of central-level SOEs (and in fact, SASAC announced that 30 of the 88 central-level SOEs now have boards of directors in place). But it also was a necessary response to the company’s flagrant environmental and social mismanagement. The Chinese public and government alike were frustrated by the company’s string of devastating oil spills and explosions at a Dalian port operated by PetroChina in 2010 and 2011, and by reports of the company’s massive profits at the expense of lower oil prices for the people.

Another indication that the government may be more sensitive to CNPC’s environmental and social performance is the State Council’s issuance of “disciplinary warnings” in November 2011 to CNPC head Jiang Jiemin and 63 other executives for the accumulation of events at the port in Dalian. Financial analysts noted with surprise that the State Council took such measures against the head of a top company, calling the move “unusual.” To date, no such action has been taken by the government against CNPC in regard to its overseas investments, and is unlikely to do so without intense pressure from the public. It was also not entirely clear if tangible changes could be expected from such a punishment. Rather, like the formation of the board of directors, progress will have to be measured by monitoring the company’s environmental and social performance.

Another government body with unrealized potential to regulate CNPC, and hence the company’s environmental and social governance, is the newly-formed National Energy Commission. The NEC was set up under the State Council but above the ministerial level after the March 2008 meeting of China’s National People’s Congress. Originally, the NEC was envisioned as a means to re-establish the government’s “absolute control” over CNPC and the other oil companies, with responsibility for formulating the country’s energy policy and overseeing the national oil companies. However, analysts of China’s oil sector have noted that the NEC does not meet regularly, and administrative powers are housed within the National Energy Administration, a vice-ministerial agency lower in the Chinese government hierarchy than CNPC (See Figure 2: CNPC’s relationship to the Chinese government). Therefore, although the NEC is above CNPC in the government hierarchy, without empowering the NEA to carry out the day-to-day oversight, it may be unlikely that power dynamics between CNPC and the government will change.


An assessment of China National Petroleum Corporation’s environmental and social performance abroad

Figure 2: CNPC’s relationship to the Chinese government relevant to overseas operations

Key:
CCP - Chinese Communist Party
NEC - National Energy Comission
NEA - National Administration of Energy
Ministry of Commerce
SASAC - State-owned Assets Supervision and Administration Commission
SAFE - State Administration of Foreign Exchange
MoFA - Ministry of Foreign Affairs
MEP - Ministry of Environmental Protection
CBRC - China Banking Regulatory Commission
CSRC - China Securities Regulatory Commission

Many of the abovementioned government offices have in-house research institutes that study risks to Chinese overseas investments and CSR issues. Often, representatives from these research institutes represent their government departments at the increasing number of multi-stakeholder meetings about the impacts of Chinese overseas investments. Research institutes provide policy recommendations, but they do not have the authority to make decisions about or oversee projects abroad. Below are notable research institutes that have covered environmental and social issues as part of their focus on risks to Chinese companies around the world.

• The **Chinese Academy for Environmental Planning** (环境保护部环境规划院): an independent governmental research institute that was spun off from the Ministry of Environmental Protection. CAEP conducted research and advised the MEP in the development of a set of environmental guidelines for Chinese overseas investment projects, including those in the oil and gas sector. As of late 2011 the guidelines have yet to be finalized and publicized, but CAEP was actively promoting the standards to stakeholders.

• The **China Council for International Cooperation on Environment and Development** (中国环境与发展国际合作委员会 - “国合会”): a high-level think tank under the MEP and the NDRC. In 2010, a Taskforce on Investment, Trade and Environment, comprised of Chinese and international experts, was set up to conduct research and make recommendations to the State Council about the implementation of China’s ‘Going Out’ Policy. The Taskforce provides policy advice about the Chinese government about how the country’s private sector, its technical professionals, and its state-owned enterprises operate abroad with respect to environment and development.

• The **Institute for International Economic Research** under the National Development and Reform Commission (国家发展和改革委员会对外经济研究所): conducts research on risks and opportunities in Chinese outward foreign direct investments. In November 2009, this institute co-sponsored a Workshop on Trade, Investment and Sustainable Development between China and the Mekong Countries in Beijing along with the Heinrich Boell Foundation. Stakeholders from the Chinese government such as the NDRC, the Ministry of Commerce and China Exim Bank, and representatives from Southeast Asian governments, academics and civil society discussed the opportunities and challenges of Chinese investments in the Mekong region.

• The **Enterprise Research Institute of the Development Research Center** (国务院发展研究中心企业研究所): a research institute under the State Council that conducts research on corporate social responsibility practices among Chinese companies operating abroad. In 2009, the ERI collaborated with Harvard University and AccountAbility, a CSR consulting firm, to understand the views of Chinese business leaders in Africa toward CSR. Later this collaboration developed into a dialogue and subsequent publications in which the ERI and Chinese Academy of Social Sciences were involved.

• The **Institute of West-Asian and African Studies** of the Chinese Academy of Social Sciences (中国社会科学院西亚非洲研究所): conducts research on China-Africa relations. It has published reports and sponsored discussions about Chinese business views on CSR, Chinese labor practices and relations to local societies and more. In 2010, IWASS collaborated with Harvard University and
AccountAbility on a research project and dialogue focusing on the role of business in sustainable development in Africa.

• The Research Center for Corporate Social Responsibility of the Chinese Academy of Social Sciences (中国社会科学院经济学部企业社会责任研究中心) conducts research on CSR guidelines for Chinese companies. The CASS CSR research center has released two sets of CSR report writing guidelines for Chinese companies, envisioned as a Chinese alternative to international standards such as the Global Reporting Initiative. The most recent guidelines (中国企业社会责任报告编写指南－CASS–CSR 2.0) were released in March 2011 and included a sector-specific guide for the oil and gas industry.  

• The China Institute of Contemporary International Relations (中国现代国际关系研究院): under the Ministry of Security, conducts research on issues related to strategic petroleum reserves and transportation security. CICIR researchers have closely monitored the social and political situation in Myanmar (Burma) as it relates to the Sino-Myanmar oil and gas pipelines project.

• The Shanghai Institute of International Studies (上海国际问题研究院): a think tank focusing on Chinese foreign affairs. It conducts research on China’s outward foreign direct investment and has shown interest in the risks that CNPC and other Chinese oil companies face abroad, including political and environmental risks.

Academics at Chinese universities also promote and disseminate knowledge about risks to Chinese companies operating abroad such as corruption, security threats, political upheaval and social unrest. Academics lack the formal ties to central government policymakers held by research institutes, but can be influential in the policymaking process as outside experts.

For example, the Sino-Myanmar oil and gas pipelines project was originally conceived of and introduced by three experts from Yunnan University (Li Chenyang, Qu Jianwen, and Wu Lei). The plan was presented as a way to reduce China’s reliance on the Strait of Malacca to ship its petroleum imports, and won support from many Yunnan provincial government officials as well as those in the central government.  

Table 3: Prominent Chinese experts on petroleum security

<table>
<thead>
<tr>
<th>Institution</th>
<th>Prominent expert</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing University</td>
<td>Zha Daojiong and Song Guoqing</td>
</tr>
<tr>
<td>Tsinghua University, Center for China Study</td>
<td>Hu Angang</td>
</tr>
<tr>
<td>Renmin University, Center for Energy Research</td>
<td>Xu Qinhua</td>
</tr>
<tr>
<td>Nankai University</td>
<td>Pang Zhongying</td>
</tr>
<tr>
<td>China University of Petroleum</td>
<td>Dong Xiucheng</td>
</tr>
<tr>
<td>Yunnan University, Institute of International Relations</td>
<td>Li Chenyang, Qiu Jianwen and Wu Lei</td>
</tr>
<tr>
<td>Xiamen University, China Center for Energy Economics Research</td>
<td>Lin Boqiang</td>
</tr>
</tbody>
</table>

Source: Kong, B. (2010), p.50

One Chinese academic suggested that CNPC might also utilize these external experts to do independent risk assessments of particular projects. Getting second or more opinions from scholars can be a method for the company to conduct due diligence when trillions of RMB are at stake. Academics may provide expertise in areas in which the company’s in-house researchers are less familiar, for example on geopolitical or historical issues.

The Chinese media

The Chinese state-run media do not have direct influence over CNPC or the Chinese government, but


62 Author interview with an energy expert at Renmin University, Beijing on 16 March 2011.
they do raise public awareness about China’s energy security (in which overseas petroleum investments factor prominently), which, to some extent, fosters public expectations of how the government should address energy issues. Additionally, the Chinese state-run media offer an indirect channel for Chinese academics and experts to be heard by policy makers.63

Chinese media coverage of the environmental and social impact of CNPC’s overseas projects has been minimal, but predominantly favorable. For example, articles have focused on the company’s charitable projects in Sudan,64 contributions to economic development in Burma,65 and improved technology standards at a refinery in Kazakhstan.66 At the same time, the state-run media have been disparaging and suspicious of those who critique CNPC projects. For example, when the Shwe Gas Movement, an organization of ethnic Arakanese people based in Thailand, published a report in 2009 laying out the risks of CNPC’s Sino-Myanmar oil and gas pipeline project to Arakanese communities, the Global Times was quick to qualify the report as a product of western influence67 and other news outlets called SGM’s report “slander” against China.68 This sensitivity to outside critiques may result from the framing of petroleum projects as a matter of national security, in which criticism of CNPC is perceived as attempts to limit China’s development. As one representative of a Chinese NGO in Beijing put it, “People feel like impacts are inevitable. Competition in the oil industry is fierce, so if Chinese oil companies do not get access to the oil, a company from another country will.”69

Still, the Chinese media often critique CNPC, mainly about its monopoly and self-profiting in the face of the burdens put on the Chinese people by high fuel prices.70 Criticism of CNPC’s overseas expansion has sometimes been raised within this context. For example, in August 2010 the China Youth Daily featured a critical commentary on how CNPC “Properly Guides Public Opinion” (且看中石油如何“正确引导舆论”).71 The commentary cited an internal CNPC document discouraging the mention of overseas expansion when talking to international media, except phrases such as ‘healthy development,’ or ‘mutual benefit.’ The revealing document was published as the government was openly battling CNPC over fuel prices. On the other hand, the Chinese media have yet to report on NGO or community concerns about CNPC overseas projects. So, while the Chinese state-run media have at times been a mouthpiece to express concern about CNPC’s outward expansion, their lack of attention to societal concerns about CNPC’s overseas projects is an indicator that this is still too sensitive for public discussion.

Additional sources of oversight

Going abroad has exposed CNPC to new sources of oversight. Foreign government stock exchange regulators, international standards, CSR consultants, NGOs and international oil companies are all part of the broad group of stakeholders who are playing a role in shaping CNPC’s corporate governance in the face of international challenges and norms. Put in perspective, the extent to which these players have input is slight, but they have made substantive inputs.

---

69 Author interview at an NGO in Beijing, 22 March 2011.
CNPC’s PetroChina has been listed on the New York and Hong Kong stock exchanges since 2000, and as such is regulated by the Securities and Exchange Commission in the United States and the board of directors of the Hong Kong Stock Exchange in Hong Kong. SEC rules specify that publicly listed companies must file regular financial statements and issue notifications when accidents, security incidents, lawsuits and other issues that affect a company’s profits occur. Since 1997, U.S.-listed companies have also been required to abide by the U.S. government’s embargo on investments that profit the Sudanese government. This has forced CNPC to keep its Sudan assets out of its NYSE-listed subsidiary. However, in 2007 PetroChina wanted to build a refinery in Southwest China to process Sudanese oil imported by CNPC. The U.S. government stepped in to request that PetroChina not process Sudanese crude at the refinery, citing the economic sanctions. As a result, PetroChina announced it would delay the opening of the refinery to make arrangements to either avoid processing Sudanese crude or transfer ownership of the refinery to CNPC.

International investors can theoretically influence the environmental and social governance of PetroChina and CNPC Hong Kong, CNPC’s publicly listed subsidiaries. However, given the fact that about 86 percent of PetroChina’s shares are held by CNPC, the ability of minority shareholders to significantly influence PetroChina is slim, and the prospect of influencing the parent company is even smaller. Furthermore, CNPC’s status as a government-owned enterprise hampers investors’ ability to actively engage with the company and its subsidiaries. As a result, many institutional investors, including Harvard University, have divested their shares.

Other investors have attempted to engage the company but found that PetroChina’s management has not been amenable to dialogue about issues such as CNPC’s investments in Sudan. Investors have described engagement on that issue as “a one way process,” wherein shareholders request information and express their concerns but receive little to no response from PetroChina management.

The Hong Kong Stock Exchange also has the power to oversee PetroChina’s corporate governance through its own information disclosure rules. A March 2010 report by Beijing and Hong Kong-based NGOs found that PetroChina failed to disclose numerous environmental violations incurred by its subsidiaries in China between 2007 and 2008. The report recommended that the HKEx do more to enforce information disclosure rules among its listed companies with operations in China. In 2012 the HKEx hopes to release new environmental, social and governance reporting guidelines for its listed companies to follow.

International investors

International investors can theoretically influence the environmental and social governance of PetroChina and CNPC Hong Kong, CNPC’s publicly listed subsidiaries. However, given the fact that about 86 percent of PetroChina’s shares are held by CNPC, the ability of minority shareholders to significantly influence PetroChina is slim, and the prospect of influencing the parent company is even smaller. Furthermore, CNPC’s status as a government-owned enterprise hampers investors’ ability to actively engage with the company and its subsidiaries. As a result, many institutional investors, including Harvard University, have divested their shares.

Other investors have attempted to engage the company but found that PetroChina’s management has not been amenable to dialogue about issues such as CNPC’s investments in Sudan. Investors have described engagement on that issue as “a one way process,” wherein shareholders request information and express their concerns but receive little to no response from PetroChina management. Indeed, after a concerted engagement effort towards the company, U.S. financial services company TIAA-CREF divested from PetroChina in 2010, stating “there was insufficient progress to warrant continued dialogue with PetroChina.” Dutch pension giant ABP similarly

---

**Stock exchange regulators**


---


74 For more information, see the ‘Corruption and Revenue Transparency’ section of this report.


77 Email correspondence with representative of shareholder dialogue group, 17 Jan 2012.

divested from PetroChina in 2012, after attempting to engage with the company on human rights issues.

**International standards**

International standards have had little influence on CNPC’s corporate governance. The Chinese government has not promoted voluntary corporate standards such as the OECD *Guidelines for Multinational Companies*, which some note could potentially diminish central government control over companies and increase firms’ barriers to competition.⁷⁹ As such, CNPC generally has not paid much attention to voluntary international standards. This is not to say that the company is unfamiliar with international norms; in some cases it has implemented Extractive Industries Transparency Initiative commitments, which involve publicly reporting payments to national governments. However, its adherence to EITI requirements was more a function of complying with host country commitments to the Initiative; the company has not joined as a company supporter of the EITI.⁸⁰

In addition, in many cases the Chinese government has been eager to learn about international standards, which it then references in its own guidelines. This can be seen as a means to preserve the government’s participation in oversight, while getting in line with international norms.⁸¹ So, for example, the Chinese Academy of Social Sciences developed a set of CSR guidelines for Chinese SOEs that draws from the International Standardization Organization tools.⁸² Similarly, CNPC, in writing its CSR reports, references the Global Reporting Initiative but does not commit to the Initiative’s full reporting criteria nor does it have the report verified by independent auditors.

One notable exception with respect to international norms is the United Nations Global Compact, which has more than 200 Chinese company signatories as of the end of 2011, including CNPC’s PetroChina.⁸³ The UNGC is a strategic policy initiative set up within the United Nations to help companies improve their performance and align their strategies with the UNGC 10 Principles in the areas of human rights, labor, environment and anti-corruption. The UNGC head office in New York envisions its role as providing companies with a chance to learn and engage with their peers and stakeholders about aspirational governance principles, but discourages the notion of the UNGC as a compliance-oriented mechanism for addressing particular incidents or abuses of one of its member companies. Should particular concerns arise, those with grievances are encouraged to take matters up with the UNGC local networks (if unable to make contact with the company directly). Going through the UNGC head office is considered a last resort when all other avenues have been exhausted.⁸⁴

However, the effectiveness of this approach has repeatedly been called into question, both on an organizational level and specifically with respect to CNPC. Broadly, an independent report commissioned by the United Nations found that the UNGC presented a reputational risk to the UN by allowing companies to use the UN logo without assuring compliance with its strategic goals.⁸⁵

**Complaint filed on PetroChina to UN Global Compact**

With respect to CNPC, in December 2008 a broad-based coalition of civil society organizations, investors, U.S. legislators and others sent a letter to the UNGC board of directors requesting that PetroChina be de-

---


⁸⁰ For more information please see the “Corruption and Revenue Transparency” section of this report.

⁸¹ Ernst, Dieter, 24 Nov 2010.


⁸⁴ Call with Ursula Wynhoven, Policy and Legal Department, UN Global Compact Headquarters, 17 March 2009.

listed on “Allegations of Systemic or Egregious Abuse” under the UNGC’s Integrity Measures because it aided conflict in Sudan (via CNPC) and lacked respect for human rights. In January 2009 the UNGC board rejected the complaint on the grounds that it was “undesirable that the refusal of any one company to engage in one-on-one advocacy…could lead to consequences such as de-listing from the UN Global Compact.”

While the UNGC head office is reluctant to engage CNPC on sustainability issues one-on-one, it recommends that the UNGC local network in Beijing, which is coordinated through the Beijing Rongzhi Institute of Corporate Social Responsibility (Beijing Rongzhi Institute), address matters. Beijing Rongzhi Institute is a part-for-profit CSR consultant, part-NGO run by the former director of the China Enterprise Management Association and member of several CSR initiatives in China. Beijing Rongzhi Institute has acted as a consultant to SASAC and many Chinese SOEs such as BaoSteel in their development of CSR strategies, plans and report writing. In its role as the UNGC local coordinator (called the “focal point”), the Beijing Rongzhi Institute has not been able to provide opportunities for civil society to fruitfully engage with PetroChina/CNPC. However, during a November 2009 meeting co-sponsored by the NDRC and the Heinrich Boell Foundation focusing on the challenges and opportunities of Chinese investments in the Mekong Region, Chen Ying, the head of the Beijing Rongzhi Institute, announced her organization’s intention to be a bridge between civil society and Chinese companies.

To date, the UN Global Compact has not proven to be a useful mechanism to address environmental and social controversies posed by CNPC’s overseas investments. The UNGC secretariat is loathe to act upon compliance problems, and its Chinese local network may be of limited effectiveness. When it comes to powerful oil companies such as CNPC, it will be a struggle for Beijing Rongzhi Institute to connect the company with concerned stakeholders because it does not have the backing of the Chinese government, or the force of a UNGC compliance mechanism. Instead, the ability to connect the company with concerned stakeholders will largely be based on the organization’s personal connections.

**CSR consultants**

To some extent, CSR consultants working with Chinese companies have filled a communication void between CNPC and society regarding the company’s environmental and social governance. One independent consultant with ties to CNPC in Beijing stated that the role of a consultant is to present the concerns of international organizations and civil society to Chinese companies in a way they will understand. Some CSR consultants have also provided advice to international organizations about effective ways of communicating issues to companies and acted as intercultural ‘translators.’ Finally, on occasion, CSR consultants have put concerned groups directly in touch with contacts within CNPC research departments. The facilitation role that CSR consultants play in China is markedly different than in the international context, where the public can usually directly approach a company.

**NGOs**

NGOs sometimes play the role of consultant to CNPC, filling a need for the company as it grapples with new environmental and social issues and risk prevention strategies. For example, NGOs have provided CNPC’s research departments and subsidiaries with information about how CSR is implemented in inter-

---

89 Author interview with Chen Ying, head of the Beijing Rongzhi Institute of Corporate Social Responsibility in Beijing, April 2011.
90 Author interviews with two CSR consultants in Beijing, March and April 2011.
national contexts. The company has expressed interest in learning about civil society interactions with international oil companies, for example after the British Petroleum oil spill in the Gulf of Mexico during the spring of 2010. NGOs have also played a convening role, hosting discussions about environmental and social governance. For example, in March and June 2011 the U.S.-based World Resources Institute hosted meetings that brought together CNPC, China Exim Bank, MofCom and many international stakeholders from government, academia and civil society to discuss emerging actors in development finance. Similarly, in December 2010 the Chinese People’s Association for Peace and Disarmament, the Africa Peace Forum and UK-based SaferWorld convened a meeting about peace and security in Africa that was attended by a CNPC researcher.

**International oil companies**

CNPC’s strategic and joint venture partners also have the ability to introduce the company to international best practices in environmental and social matters. Royal Dutch Shell, which participated in joint exploration for China’s West-East Pipeline Project with PetroChina from 2001-2004, reportedly used their role as a joint venture partner to push the CNPC subsidiary to implement international standards, including the use of environmental and social impact assessments, into project design and implementation. However, the joint venture was terminated after three years and PetroChina carried on independently. CNPC has joint ventures with international oil companies throughout the world, including a joint venture with British Petroleum at the Rumalia oilfield in Iraq and a global strategic partnership with Shell, but it is not clear how much knowledge transfer occurs in these projects, especially given that one company or the other is usually the operator, not both. CNPC researchers have been keen to learn from the experience of international oil companies regarding environmental and social governance, and there has been at least one exchange between CNPC and an international oil company related to these types of issues.

---

91 Author interview with representative from a CNPC research department in Beijing, 21 April 2011.

92 “Emerging Actors in Development Finance,” World Resources Institute, meetings held in Beijing, Washington, DC and New York, 14 Mar and 8-10 June 2011.


CNPC and environmental and social performance

The utility and strength of a company’s environmental and social policies and governance mechanisms are ultimately proved through the company’s performance. CNPC’s environmental and social performance on the ground in the countries in which it operates reveals a company that is learning as it goes. It takes actions that respect communities and the environment in some cases, but lacks the systems and will to deliver consistently improving results. In many cases, the company shows disregard for best practices, which has harmed its relationships with host country communities, workers and shareholders. This section will focus on CNPC’s performance across a spectrum of issues of concern to the investors, the international public, NGOs and communities. It will cover the company’s engagement with stakeholders, its environmental record, transparency and vulnerability to corruption, operations in conflict areas, relations with its workers and finally its philanthropy and social programs. As it faces increasing environmental, social and political risks overseas, engaging with stakeholders is an important first step because it is through this process that the company can improve its performance in other areas.

Stakeholder engagement

Engaging with stakeholders such as local communities and civil society organizations is an important means through which companies can become aware of concerns about their projects and try to identify and mitigate risks. At the corporate level, CNPC does not have an established mechanism or department through which community groups, civil society organizations and investors can engage the company on relevant issues. As such, there is no standardized means through which these groups have approached the company with concerns about particular projects. For this report, we have considered the experiences of groups that reached out to CNPC regarding its projects in Kazakhstan, Myanmar (Burma), Peru, Russia and Sudan, as well as those groups pursuing company-level engagement.

These groups have attempted to reach out to the company through letters, petitions and phone calls to CNPC and PetroChina offices in Beijing, informal contact with lower-level staff at the company or its research institutes, attendance at multi-stakeholder meetings arranged by third parties, and host-country media.

Overall, the investor and civil society groups interviewed for this assessment reported that they have found it challenging and unfruitful to engage the company at its headquarters in Beijing on particular projects. For example, several groups stated that their letters and emails to CNPC went unanswered; some reported that PetroChina replied with statements that it did not have projects in the area of concern. Some of the issues that were noted as contributing factors to CNPC’s unresponsiveness include:

- Language issues, if correspondences were not carried out in Chinese;
- A lack of interest or understanding of why an investor or NGO would approach a particular person or department within the company; or
- If initial contact was made, staffing changes within CNPC prevented on-going dialogue.

Some groups have had relatively more success when dealing with CNPC subsidiaries on the ground. In the most successful case of engagement studied for this report, a CNPC subsidiary in Peru became aware of NGO criticism of its concessions and promptly met with a coalition of groups to learn more about the issues early on in the project contract. Several face-to-face meetings took place, and afterward the company made adjustments to the concession that avoided environmental and social risks.97

97 For more about this engagement, see the case study about SAPET’s Block 113 in this report.
Making contact with the subsidiary has not been a guarantee of substantive dialogue, though. Some stakeholders described their communication with the company as one-sided. For example, a group trying to mitigate conflict in Sudan just before the south became independent was initially optimistic about its relationship with CNPC Nile Company after a company representative responded positively to a cold invitation to attend an in-country conference about conflict and the oil industry. Furthermore, the company liaison officer was described as friendly and helpful in setting up meetings with his superiors. However, the NGO felt that the two sides were worlds apart in their understanding of the issues, and that it was difficult to gauge if progress was being made because the company representatives did not engage in discussions about the NGO’s concerns, but rather used these meetings to stress CNPC’s position on issues. Other groups shared this perspective, and were cautiously hopeful that if they could earn the trust of the company or one of its subsidiaries, dialogue would open up.\(^98\) One representative from a Chinese NGO seeking to collaborate with a CNPC overseas subsidiary on environmental management expected that it would take at least one year to cultivate the relationship before terms could be set, based on previous cooperation with another SOE.

From the examples of interactions between outside stakeholders and CNPC, some conclusions can be made about its relations with the public. First, engagement practices vary among CNPC’s many subsidiaries operating abroad. In Peru, CNPC’s SAPET was quick to start a dialogue with local actors about one of its investments, whereas in Myanmar (Burma) civil society organizations have been unable to make contact with the Southeast Asia Oil and Gas Pipeline Co. about trans-border oil and gas pipelines the company is building. Meanwhile, in Sudan some stakeholders made contact without substantive results, but have hope that engagement with CNPC will open up in South Sudan if the government there adopts higher standards for environmental and social impacts and community development than Khartoum did. Second, the company (like its competitors from other emerging markets) does not have a systematic way of addressing public concerns about the company’s overseas projects and engaging with stakeholders. Finally, when CNPC has engaged with investors and NGOs about particular projects, the motivations for doing so are unclear.

**Environmental record**

CNPC’s environmental performance is impossible to quantify because of the lack of available data. Reports suggest that the company is putting resources into improving energy efficiency, but also has been cited for numerous environmental pollution violations. Like its competitors, CNPC has ventured into producing unconventional, dirty fuels, which can significantly increase its environmental footprint.

CNPC’s 2010 annual report does not include data about company spending for environmental protection, but does mention a handful of energy efficiency projects that were underway that year, including 10 major energy saving projects and 103 smaller projects to cut down on power consumption and water usage.\(^99\) PetroChina, which releases relatively more environmental data in order to comply with overseas accounting and financial reporting requirements, reported that its capital expenditures on environmental programs in 2008, 2009 and 2010 were approximately RMB1,366 million, RMB1,336 million and RMB1,277 million, respectively.\(^100\) However it did not specify the nature of the environmental projects.

In terms of environmental violations and fines, CNPC has not disclosed this information in its recent annual reports. However, on occasion its subsidiaries have been cited by host country environmental protection authorities for environmental damages.

---

98 For example, see the case study of Conflict Risk Network’s engagement with CNPC about its investments in Sudan in this report.


For example, prosecutors in Kazakhstan filed a lawsuit against CNPC’s local subsidiary in the amount of US$8 million in 2007, charging that the company had maintained unlawfully high toxic emission levels. PetroChina stated in its filing to the United States Securities and Exchange Commission that it paid pollutant discharge fees of approximately RMB 200 million, RMB 301 million and RMB 305 million in 2008, 2009 and 2010, respectively. The company also publicly reported a diesel oil leakage accident that contaminated China’s Yellow River in 2009. A 2010 report by the Institute of Public and Environmental Affairs and Civil Exchange noted that the release of such information “is an encouraging sign that there is increasing appreciation of the value of transparency within the corporate community.” However the report also noted that PetroChina failed to disclose the numerous environmental violations incurred by the company’s subsidiaries in 2007-2008.

Along with a handful of international oil companies, CNPC has begun to invest in large-scale, energy-intensive, and highly polluting unconventional oil projects. Major investments include a joint venture with Venezuela’s state oil company to produce super-heavy oil from the 54,000 square kilometer Junin 4 Block in the Orinoco belt, an area which UNESCO has characterized as having “great biological diversity.” PetroChina also has equity stake in the assets of Athabasca Oil Sands Corp., which produces oil sands in Alberta, Canada. The Alberta tar sands project has been called “the most destructive project on earth” for its devastating impacts on water, forests and the climate.

Finally, each of CNPC’s upstream development activities in the 29 countries where it does business has its own local environmental impacts. For example, CNPC’s Shwe gas pipeline in Myanmar (Burma) traverses two “Global 200 Ecoregions,” areas identified by the World Wide Fund for Nature for their crucial biodiversity: the Naga-Manipuri-Chin Hills Moist Forests, classified as one of the world’s 10 most vulnerable tracts of intact forests, and the Northern Indochina Subtropical Forests, which are known for their high levels of endemic birdlife. Its proposed pipeline in the Altai plateau in Russia would also impact the Golden Mountains of Altai, a UNESCO World Heritage Site.

**Corruption and revenue transparency**

Corruption is a severe problem in many resource-rich countries, making it difficult to conduct business and achieve social, economic and political progress. Empirical evidence suggests that the involvement of oil and gas companies in these countries exacerbates the problem. In a recent study, the International Monetary Fund found that higher increases in oil payments to governments significantly increase corruption, bolstering arguments by corruption watchdog organizations that the oil and gas industry on the whole is highly vulnerable to engaging in corruption, such as bribing public officials and inappropriately influencing the legislative process.

CNPC likewise is vulnerable to corruption risks, with investments in seven of the 10 most corrupt countries in the world, according to Transparency International’s 2010 Corruption Index. A recent survey of 44 lead-

---


104 Ibid, p.4


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


111 These countries include: Myanmar #176, Iraq #175, Uzbekistan, Turkmenistan and Sudan tied at #172, Chad #171, Equatorial Guinea.
ing oil companies by Transparency International and Revenue Watch Institute found that CNPC scored below average in terms of its disclosure of anti-corruption initiatives and policies, company-level organizational and financial information and payments at the country level; all of which present corruption risks to the company.\textsuperscript{112} Indeed, CNPC and its subsidiaries have been accused of corrupt business practices, including accepting bribes in the United States,\textsuperscript{113} tampering with documents in Iraq\textsuperscript{114} and insider trading in Canada.\textsuperscript{115}

According to CNPC’s 2010 CSR report, the company has stepped up its efforts to fight corruption. At the local level, this claim is strengthened by CNPC’s participation in the Extractive Industries Transparency Initiative in several countries. The EITI is a voluntary anti-corruption initiative to publish company payments and government receipts of natural resource revenues. As of October 2011 CNPC and its subsidiaries disclosed revenue payments in all 10 countries in which the company operates and the government implements or intends to implement the EITI process (see Table 3: CNPC’s participation in the EITI around the world). Reportedly, in Iraq\textsuperscript{116}, Chad\textsuperscript{117} and Mongolia\textsuperscript{118} CNPC went a step further by becoming a member of those countries’ national EITI multi-stakeholder groups.\textsuperscript{119}

At the corporate level, it is more difficult to verify that CNPC is making an effort to fight corruption. The company does not publicly disclose a corporate corruption policy, anti-corruption audits of its departments and subsidiaries, or data about employee anti-corruption trainings. Also, it has not yet chosen to become an official company supporter of the EITI process.

 Newly adopted anti-corruption legislation in China and the United States has the potential to spur greater transparency and accountability within CNPC. In May 2011, China put into effect broad legislation to punish Chinese companies found to be engaging in corrupt practices abroad. Some legal analysts note that this historic law marked an attempt to develop ethical practices among Chinese overseas companies and is a departure from China’s longstanding ‘non-interference’ in the domestic affairs of other countries, including corrupt regimes. As of September 2011, no cases had been brought against a company using the law; such cases would test the law’s strength.\textsuperscript{120} Additionally, in the U.S., section 1504 of the Dodd-Frank Financial Reform Act, which was passed by the U.S. Congress in 2010, requires companies listed on U.S. stock exchanges to disclose payments made to host country governments for oil, gas and mining activities.\textsuperscript{121} As PetroChina is listed on the New York Stock Exchange, it would be required to divulge host-country payments to the U.S. Securities and Exchange Commission. As of early January 2012 the SEC had not promulgated final rules to enforce the law.\textsuperscript{122}

---


\textsuperscript{117} According to information provided by Revenue Watch Institute, September 2011.

\textsuperscript{118} Coffey International Development Ltd., “Validation of the Extractive Industries Transparency Initiative (EITI) in Mongolia,” Mongolia EITI.

\textsuperscript{119} For more information, see the case study about CNPC’s involvement in Iraq’s EITI.


Table 4: CNPC’s participation in the EITI around the world (as of late 2011)

<table>
<thead>
<tr>
<th>Country</th>
<th>Country EITI membership status</th>
<th>CNPC participation</th>
<th>Noteworthy information</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Supports EITI</td>
<td>Candidate to support EITI</td>
<td></td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>X</td>
<td>Participated in Azerbaijan’s 2010 EITI reconciliation through Commonwealth Oil and Gas (60% equity stake holding)</td>
<td></td>
</tr>
<tr>
<td>Chad</td>
<td>X</td>
<td>Not yet required to publish reconciliation reports</td>
<td>Sits on national EITI multi-stakeholder group</td>
</tr>
<tr>
<td>Indonesia</td>
<td>X</td>
<td>Not yet required to publish reconciliation reports</td>
<td></td>
</tr>
<tr>
<td>Iraq</td>
<td>X</td>
<td>Not yet required to publish reconciliation reports</td>
<td>Sits on national EITI multi-stakeholder group</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>X</td>
<td>Participated in Kazakhstan’s 2009 EITI reconciliation (most recent), through CNPC International (Buzachi), Aktobemunaygas JSC and Ai Dan Munay JSC</td>
<td></td>
</tr>
<tr>
<td>Mauritania</td>
<td>X</td>
<td>Participated in Mauritania’s 2008 EITI reconciliation (most recent) through CNPC International (CNPCI)</td>
<td></td>
</tr>
<tr>
<td>Mongolia</td>
<td>X</td>
<td>Participated in Mongolia’s 2009 (most recent) EITI reconciliation through PetroChina Dachin Tamsag LLC</td>
<td>Sits on national EITI multi-stakeholder group</td>
</tr>
<tr>
<td>Niger</td>
<td>X</td>
<td>Participated in Niger’s 2007-2009 (most recent) EITI reconciliation through CNPC, CNPC International Bilma/Tenere and CNODC</td>
<td>CNPC was one of only seven companies operating in Niger to participate in the reconciliation during all three years 2007-09</td>
</tr>
<tr>
<td>Nigeria</td>
<td>X</td>
<td>Participated in Nigeria’s 2006 -2008 EITI reconciliation (most recent)</td>
<td></td>
</tr>
<tr>
<td>Peru</td>
<td>X</td>
<td>Participated in Peru’s 2004-2007 EITI reconciliation (the most recent) through PlusPetrol Norte SA (equity stake)</td>
<td></td>
</tr>
<tr>
<td>*Equatorial Guinea</td>
<td>Has signaled intent to become a support, in process of meeting initial requirements to become a candidate</td>
<td>Did not participate in the country’s first reconciliation report (2007-2008); RWI reports that CNPC has participated in EITI and reported payments</td>
<td></td>
</tr>
</tbody>
</table>

Source: EITI, CNPC, Revenue Watch Institute
Operating in conflict-affected areas

As international oil companies have exploited the world’s most desirable oil resources, Chinese oil companies, which are newer to international oil extraction, are investing in less desirable projects to meet China’s growing demand for fuel, including those that are located in politically unstable areas that are prone to violence from social unrest, ethnic conflict, civil war and one-sided violence by state and non-state actors. Operating in these areas poses heightened challenges to companies like CNPC in terms of supporting a peaceful operating environment, responsible local stakeholder engagement and avoiding complicity in human rights abuses and corruption. In the first half of 2011 the threat of investing in conflict-affected areas seemed to be growing, with sudden security threats to Chinese businesses operating abroad up 45 percent from the same period the year before. Some of the many countries in which CNPC invests, including Algeria, Chad, Iraq, Libya, Myanmar (Burma), Nigeria, Sudan and Tunisia have been affected by varying degrees of conflict.

As a result of its investments in these and other conflict-affected countries, CNPC has been exposed to a variety of conflict-related impacts, including security threats, financial losses and project suspensions. For example, in Sudan, the company has been unable to protect employees from kidnappings and killings by rebel groups. Also, military escorts for the oil company have been accused of forcibly evicting hundreds of thousands of local people from their land, without compensation, in order to build roads to the oilfields. In Libya and neighboring Niger, the Great Wall Drilling Co., a wholly-owned subsidiary of CNPC, terminated six exploration projects as Libya’s Col. Muammar Gaddafi was overthrown. The project cancellations were estimated to cause RMB 1.2 billion (US$ 188 million) in losses for the company, about 20 percent of GWDC’s income from overseas contracts in 2011. In Myanmar, local people frustrated with the government’s handling of natural resource extraction have called for the suspension of CNPC’s cross-border oil and gas pipelines project, in light of the Burmese government’s suspension of the unpopular Myitsone dam, a US$ 3.6 billion project which was to be built by another Chinese SOE.

In addition to direct impacts on operations, CNPC and other companies operating in conflict-affected areas have suffered reputational damage. For example, CNPC’s oil dealings with the Sudanese government contributed to the 2008 Olympics in Beijing being dubbed the ‘Genocide Games.’ Following international campaigns highlighting abuses in both Sudan and Burma, dozens of large asset managers and institutional investors in the United States and Europe, including TIAA-CREF, American Funds, Berkshire Hathaway, and PGGM, and most recently ABP sold their shares in PetroChina, CNPC’s publicly listed subsidiary. A June 2010 report by the United States Government Accounting Office found that between 2007–2009, U.S. investments in six companies with ties to Sudan declined by 60 percent, which the GAO concluded could not be accounted for by stock price fluctuation alone.

130 The names of the companies were not disclosed in the report, so it is impossible to say if PetroChina was included in the data. However, many institutional investors divested from the company during this time, so one can assume that if divestment negatively impacted the profits of the six companies analyzed, a similar outcome would be true for PetroChina if it were not included.
Managing risks associated with operating in conflict areas is a challenge for a company that is accustomed to the Chinese government maintaining stability and dealing with social problems. To gain a better understanding of the related risks, CNPC has looked abroad. CNPC’s subsidiary in Sudan and company research institutes in Beijing have participated as observers in the United Nations Global Compact working group to develop guidelines for responsible investment in conflict-affected areas. The process brought together companies, investors and other experts for a series of meetings throughout 2009 and 2010. The company has also participated in multi-stakeholder conferences about business risks in conflict areas hosted by NGOs, for example the China–Africa Civil Society Forum on Peace and Development in Beijing during June 2010. Finally, there have been private meetings about responsible investment between the company and members of the United Nations Principles for Responsible Investment. Despite the company’s efforts to understand perspectives from these stakeholders, many believe CNPC has been slow to implement responsible business practices and address risks of operating in conflict-affected areas. According to Ren Haoning, an analyst from the China Investment Consulting Corp. quoted in Xinhua, lack of experience, weak regulation and errors in judgment have been the main drivers of losses at Chinese overseas oil projects. “For CNPC, the current priority should be avoiding massive losses...[the company] should elevate its risk evaluation and management to strengthen the assessment of overseas projects.” Other companies active in the international extractive industry have done this through the adoption of international standards such as the Voluntary Principles on Security and Human Rights, which were developed by the governments of the UK and U.S. in 2000 in order to begin to build consensus on security and human rights issues around the world.

One important lesson from CNPC’s investments in conflict-affected areas is that there can be serious consequences when conducting business with dictatorial regimes if political power changes hands. CNPC’s tendency to rely solely on engaging with the highest levels of government in these cases may leave them scrambling. If political power changes hands, the company’s reliance on high-level host country governments and regulators will leave the company in a vulnerable position. For example, following South Sudan’s secession from Sudan in mid-2011, the company’s oil concessions are now subject to a new government, which required the company to set up management infrastructure in Juba, South Sudan’s new capital. Similarly, Libya’s bloody uprising in early 2011, which pit the Gaddafi government against Libyan rebel groups, forced CNPC and other foreign companies operating in the country to halt production and evacuate their workers. In March 2011, Yu Baocai, a vice-president at CNPC, called the uprising’s impact on CNPC’s operations “limited” without elaborating. However, by August the company had terminated exploration contracts in the country.

### Labor relations

In 2010, CNPC employed more than 1.5 million people, a resource that it stated was more valuable to the company than the oil it produces. CNPC’s labor policy espouses the importance of equality, non-discrimination, and protection of workers’ legal rights. Other key components of its labor policy include career development and occupational health and safety. In its overseas operations, CNPC also stresses localization of the labor force and respect for different cultures. The company’s respect for the rights and interests

---


134 For more information, see the UN-PRI website at [http://www.unpri.org/sudanengagement/index.php](http://www.unpri.org/sudanengagement/index.php).


of its workers can be benchmarked against Chinese\textsuperscript{138} and host country labor laws, International Labour Organization conventions, and voluntary guidelines such as those referenced in the Global Reporting Initiative oil industry supplement.

Certainly given CNPC’s massive and diverse workforce, there are multiple dimensions to the company’s labor relations performance, such as appropriate safeguards against exposure to toxic chemicals and adequate compensation. However, this report does not seek to comprehensively cover CNPC’s labor practices, but rather highlight some of the unique or especially controversial labor challenges CNPC faces abroad. These include local hiring (especially for senior management positions), maintaining the safety of its workers in high-risk areas and protecting workers’ rights to association and collective bargaining.

CNPC’s 2010 CSR report states that it aims to hire 90 percent of employees locally in its overseas projects. Although the company does not divulge the current percent or total number of employees hired locally, it claims to have exceeded the 90 percent mark in Indonesia, Kazakhstan and Sudan. These are three countries in which CNPC has operated for more than 10 years each, which may indicate that the company puts effort into hiring locally in its long-term projects. However, in other countries the obvious disparities in pay between local workers and foreign oil workers have caused massive protests. For example, in Iraq, oil workers went on strike at the Rumalia oilfield, which is jointly operated by BP and CNPC, in May 2011, in protest of their menial wages in comparison to the wages of Chinese and other foreign oil workers.\textsuperscript{139}

Similar concerns exist with respect to the exclusion of local workers from senior management positions, for which CNPC does not provide statistics in its annual CSR reports. According to the company, the discrepancy is a matter of local employees not having appropriate skills, and so CNPC is providing skills training to local people in some cases. For example, CNPC subsidiary China Engineering and Construction Corporation offered a petroleum industry skills training course in South Sudan in collaboration with the government’s Ministry of Energy and Mining. Thirty people attended the one-month free training session in July 2011.\textsuperscript{140} However, the training course did not necessarily lead to jobs with CNPC.

As mentioned in the section on operating in conflict-affected areas, CNPC operates in many countries where there is a high risk of violence. In these circumstances, providing security for company workers and contractors has been a challenge. In October 2008, nine CNPC employees were kidnapped from a worksite in southwest Sudan and only four of the workers returned alive. Three years later in October 2011, a CNPC oil worker was killed and another injured in another attack by gunmen in the war-torn country.\textsuperscript{141}

In other cases, workers have had to be evacuated from worksites under imminent threat of riots and political upheaval. According to CNPC reports, between 2008 and 2011, the company had to evacuate workers in Chad, Libya, Niger, Nigeria and Pakistan due to security threats.

Finally, CNPC has faced challenges as workers abroad seek their rights to organize independent trade unions. Since 2008, CNPC has given increasing coverage to the issue of trade union organization in its CSR reports, noting that the company had 1.08 million union members by the end of 2010. However this has been an ongoing and contentious issue in some of its global projects. In Kazakhstan, CNPC’s joint venture project in the Aktobe region is involved in multi-year labor disputes that have oil workers throughout the country protesting the persecution of independent

\textsuperscript{138} For example, the Labor Law of the PRC, Law of the PRC on Employment Contracts and Trade Union Law of the PRC.


\textsuperscript{141} “Chinese oil worker killed in Sudan conflict state: embassy,” AFP, 3 Oct 2011, http://www.google.com/hostednews/afp/article/ALeqM5jIVYKsh JWgkQNiOzd8Rgq1XX_k9w%docId=CNG.633edf559de0169d60c41e94017daa.a11.
An assessment of China National Petroleum Corporation’s environmental and social performance abroad

trade unionists, as well as low and unequal pay and poor working conditions.\(^{142}\)

**Philanthropy and social programs**

Domestically, CNPC provides charitable donations for poverty alleviation and disaster relief in line with the administrative orders of the Chinese government.\(^{143}\) In 2010, CNPC made more charitable donations than any other Chinese SOE, amounting to well over RMB 300 million (US$ 47.1 million).\(^ {144}\) As the company goes abroad, it is also making philanthropic donations in countries where it has long-term (more than 10-year) investments. For example, in both Kazakhstan and Sudan the company states that it has provided roughly US$ 50 million to build infrastructure such as roads, hospitals and schools, and contribute to disaster relief and other social welfare programs. In Indonesia, the company has reportedly provided US$ 13 million for community development programs. In some cases these monetary donations are made directly to local governments, while in other cases they are made through Chinese charitable organizations working in the host country. For example, in Sudan, CNPC funds the China Foundation for Poverty Alleviation\(^ {145}\) and in Indonesia the company funded the Red Cross Society of China to carry out disaster relief.\(^ {146}\)

CNPC company representatives have referred to its social programs in Sudan as a ‘best practice’ example of how the company provides benefits to the host countries in which it operates.\(^ {147}\) Indeed, the company’s donations have built bridges, hospitals and other infrastructure. However, these projects have also been criticized for being out of touch with the needs of local people. A 2008 report by civil society organizations Fatal Transactions and European Coalition on Oil in Sudan stated that development potential and needs assessments are not carried out and as a result health clinics are inaccessible to most local people, Islamic schools have been built in areas with few or no Muslims and rural settlements go without electricity even though nearby oil production areas do.\(^ {148}\)

\(^{142}\) For more information, see the case study of CNPC in Kazakhstan.


Case studies

Below are six short case studies that illustrate CNPC’s environmental and social performance in its overseas projects, as perceived by civil society stakeholders from those areas. The case studies, which were compiled by Friends of the Earth-US, provide examples across a spectrum of geographic regions, issues and outcomes. During Fall 2011 the case studies were sent to contacts within CNPC in the hope that the appropriate managers within the company would have a chance to respond with comments, corrections or updates. However, no comments on the case studies were provided.

**SAPET Block 113: Respecting the territorial reserve of uncontacted indigenous peoples, Peru**

*Drafted by Friends of the Earth–U.S. with information provided by The Native Federation of Madre de Dios River and Tributaries and Amazon Watch*

In December 2005, CNPC’s subsidiary in Peru signed two agreements with the Peruvian state-owned oil company to explore for oil in the dense rainforest of the southeastern Madre de Dios region of the country. Perupetro, along with Peru’s Ministry of Energy and Mines, granted CNPC’s SAPET 7-year contracts to explore for oil in Blocks 111 and 113, in which the company was to invest US$ 80 million during exploration and US$ 1 billion during production.\(^{149}\) CNPC reportedly commissioned an environmental impact assessment for the seismic exploration phase of the projects in 2006 and commenced seismic data acquisition in 2007.\(^{150}\)

**Project impacts**

The remote jungles of Peru are thought to be home to 15 of the roughly 100 native tribes living in voluntary isolation around the world. They speak their own languages, follow their own cultural traditions and deliberately avoid modern society, of which evidence suggests they are aware. In 2002, a territorial reserve for the protection of uncontacted indigenous peoples living in voluntary isolation was established in Madre de Dios, an area deep in the Amazonian rainforests near Peru’s border with Brazil. Indigenous rights groups claimed that when Perupetro drew the boundaries of oil Block 113 a few years later, they superimposed it over the reserve, exposing the indigenous tribes to risk from disease and violence.\(^{151}\) In similar cases of initial contact between tribes and the outside world, research has shown that it is common for half of tribe members to perish. Furthermore, this presented grave risks to SAPET employees. At least

---


four violent encounters between uncontacted tribes and outsiders have been reported in Madre de Dios, leading to the deaths of four employees of logging companies.152

Before the contract between Perupetro and SAPET was signed, the Peruvian government was reluctant to acknowledge the impact oil development would have on uncontacted indigenous peoples living within the area that Block 113 overlapped. The territory was not present on the government’s oil maps at the time. Reportedly, government officials stated that the presence of these groups would possibly necessitate further studies, but was not a sufficient reason to impede the exploration of oil in those sections of Block 113. As such, advocates for the area’s indigenous communities do not believe the government discussed the indigenous peoples’ issues with SAPET during contract negotiations.

**Mitigating issues**

However, SAPET officials were sufficiently concerned about the risks of the project, once they were properly informed. According to representatives of FENAMAD, a local Peruvian organization that works to protect the indigenous communities of Madre de Dios, the company sought to consult them and other organizations to learn more about the problems. They reported that company representatives in Lima were determined to do what was necessary to protect the integrity of the isolated indigenous peoples.

Through several meetings that SAPET held with local organizations such as FENAMAD, an agreement was reportedly achieved in which the company committed to avoiding oil exploration in areas of Block 113 that overlapped the territorial reserve. The agreement was reportedly notarized in June 2006, just half a year into the 7-year exploration contract and early enough to avoid causing harm. Perupetro and the Ministry of Energy and Mines reportedly did not support this decision, and would not officially redraw the boundaries of Block 113. Regardless, FENAMAD stated that SAPET affirmed its commitment to staying out of the area by publishing a statement in the official Peruano newspaper in September 2006.153

Finally, in January 2009 FENAMAD reported that Block 113 was removed from Perupetro’s map of existing oil blocks, which they interpreted to mean that the territorial reserve within Madre de Dios had been declared ineligible for petroleum exploration.154 Additionally, neither Block 113 nor its sister site Block 111 appeared on Perupetro’s May 2010 official oil map, and were not on the list of more than 25 blocks up for bid that year.155 It is unclear if SAPET gave up both oil blocks because of concerns over impacting indigenous communities, or if other factors were at play. CNPC’s official website still claims ownership of Blocks 111 and 113.156

**Further resources**

The Native Federation of Madre de Dios River and Tributaries (http://fenamad.org.pe), an organization representing the indigenous peoples of the Madre de Dios region, was involved in negotiations with SAPET, along with other organizations. These groups continue to be instrumental in advocating for the protection of indigenous communities in Madre de Dios.

---

152 Ibid.


CNPC’s involvement in Iraq’s EITI process

Since the end of the Iraq war and the push to restart major production from the country’s vast oil fields, China National Petroleum Corporation has become an important player in Iraq’s oil industry. With this status comes responsibility, and early signs suggest that CNPC is indeed taking its governance role seriously.

Key to that governance is accountability for the huge revenues that oil generates. While the challenges Iraq faces are immense, one tool for accountability that could help both the government and companies is the Extractive Industries Transparency Initiative, an international approach to publishing company payments and government receipts so they can be tracked. Iraq has pledged to implement EITI, and CNPC has been an active participant. This is particularly noteworthy since, as a very early stage producer, CNPC is currently exempt from the reporting requirements of EITI, yet it has already joined voluntarily. So far, all signs point to CNPC being a committed partner in the Iraqi government’s efforts to improve governance of the oil sector.

Background

CNPC first entered Iraq in 1997, signing a production-sharing contract for the development of the Al-Ahdab field, south of Kut, in central Iraq. With security deteriorating in 2003, development of this project was postponed, but following Iraqi President Jalal Talabani’s visit to China in June 2007, and China’s agreement to cancel US$ 8 billion in Iraqi debts, CNPC regained access to the project. It has since been actively working to bring the Al-Ahdab field on-line.

CNPC holds its interests in the Al-Ahdab project (which is now operated under a service contract rather than a production sharing agreement) through the Oasis Oil Company, a joint venture of CNPC and China North Industries Corporation holding a 75 percent interest in the project, with the nationally-owned Iraqi State Oil Marketing Company holding a 25 percent share. Under the service contract, the consortium’s compensation is limited to recovery of its US$ 1.3 billion in development costs, and a US$ 2 per barrel service fee.

Production from Al-Ahdab began in June 2011, making it the first major new field to begin production in Iraq in more than 20 years, and the first field to begin operations under the new oil and gas law. The production rate, initially 60,000 barrels per day, is expected to reach 200,000 in 2012. CNPC’s success on the Al-Ahdab field has earned the company access to new fields such as the Rumaila field, the largest oil field in Iraq, with over 18 billion barrels of proven reserves, and the Halfaya field, with four billion barrels. CNPC is a 49 percent partner in the Rumaila operation, with BP as majority partner and operator. CNPC holds 50 percent of Halfaya, with Total and Petronas at 25 percent each.

Major issues

CNPC’s projects in Iraq face many of the same challenges faced by other oil producers throughout the region: corruption, a lack of adequate infrastructure, environmental risks and the need to show value to local populations by creating good jobs and other social benefits. The Wasit governorate, where Al-Ahdab is located, faces an especially acute unemployment problem, and locals expect CNPC to bring jobs and training.

Mahmud Abdul Rida, mayor of Wasit, neatly summarizes the area’s predicament: “There is an unemployment problem, and we need roads, schools, and water treatment stations. We need everything.”
Some locals that Revenue Watch Institute interviewed blame CNPC for their urgent needs — rocket attacks against CNPC’s facilities at Al Ahdab in 2008 are believed by many to have been rooted in discontent over job creation — but Iraq’s oil sector, like that in many resource rich countries, has long been plagued by corruption and a lack of transparency and accountability. The vast revenues generated by Iraq’s oil sector have too often failed to make their way to investments that would benefit the country and its citizens.

**Initiating Iraq’s EITI process**

These challenges form the backdrop for the creation of Iraq’s national Extractive Industries Transparency Initiative, as well as CNPC’s active participation in it. The government of Iraq welcomed CNPC’s membership in IEITI in a press conference held on May 29, 2008, by former oil Minister Hussein Shahrestani and deputy Prime-Minster Barham Saleh. While CNPC’s participation in IEITI is consistent with the generally high level of compliance that Chinese companies have shown in other countries implementing EITI, CNPC appears to have played a particularly active role with respect to the initiative in Iraq. CNPC was selected with Shell and Exxon Mobil to be a member of the governing body of IEITI, during an international workshop held in Dubai in June 2010 and attended by 50 representatives of European, U.S., Asian and African companies. In addition, the governing body accepted suggestions made by CNPC for the reporting guidelines, such as the improvement of reporting on Al-Ahbad’s oil production by defining its proportion in the mix of concentrates.

CNPC gets high marks from the government for its role in IEITI to date. Asked about CNPC’s level of commitment, the head of IEITI’s secretariat, Imad Alam Eddeen, described CNPC’s performance as “outstanding.” Civil society and government representatives confirm that CNPC representatives regularly attend IEITI meetings, and civil society report having easy access to CNPC’s data through an information sharing process introduced as part of IEITI.

While CNPC has not yet been required to report any payments under IEITI since it has only just begun production, CNPC’s Bagdad office director, Shin Lee, pledged the company “will be the first to disclose details on payments and revenues for year 2011.”

If Iraq’s oil sector is going to drive broader economic development and promote good governance and accountability, government, members of parliament, the companies and civil society will need to work together. CNPC’s support of stronger transparency and accountability in Iraq is a step in that direction and a good omen for Iraq’s largest industry and for all the country’s citizens. As CNPC and other Chinese companies become increasingly important players in the oil, gas and mining industries worldwide, we hope the companies deepen their commitment to good governance.

**Further resources**

For more information, contact Patricia Karam, Middle East and North Africa Regional Coordinator, Revenue Watch Institute at pkaram@revenuewatch.org.

---

157 CNPC is also a member of the national EITI multi stakeholder groups in Chad and Mongolia. CNPC participates in EITI and reports payments (without sitting on the multi-stakeholder group) in Azerbaijan, Equatorial Guinea, Kazakhstan, Niger, Nigeria, Mauritania, and Peru.
**Conflict Risk Network engagement with CNPC, Sudan**

**Background on Conflict Risk Network**

Conflict Risk Network is a network of institutional investors, financial service providers and related stakeholders that calls on corporate actors to uphold their responsibility to respect human rights and to take steps that support peace and stability in areas affected by genocide and mass atrocities. CRN conducts direct engagement with companies in these areas on behalf of its institutional partners and their concerns about the companies’ impacts and risks. To help inform its network participants’ investment strategies, CRN also provides in-depth reports on companies in areas affected by genocide and mass atrocities and its engagements with them.

The network, which collectively represents more than US$ 3 trillion in assets under management, operates on the premise that company behavior that upholds human rights and supports peace and stability reduces risks faced by investors, companies and civilians. Research has shown that areas affected by genocide and mass atrocities exhibit instability, unpredictable conditions and contexts in which rights violations are ongoing, presenting companies with greater challenges in doing no harm and upholding standard corporate responsibility practices. With this understanding, CRN’s direct engagement with companies involves discussion of risks specific to a given operating environment, steps companies may take to mitigate them, and opportunities to contribute to peace and stability.

**History of attempts at engagement**

China National Petroleum Corporation is one of the firms CRN has sought to engage over the past several years because of its extensive operations in Sudan, a country which saw two million deaths from a 22-year civil war in addition to political conflicts in the Darfur, South Kordofan and Nuba Mountain regions. Initial attempts to reach the company, conducted as early as 2008, involved outreach to executive level China-based contacts at both CNPC and PetroChina Company Limited (PetroChina), CNPC’s publicly-traded subsidiary. PetroChina has been a focus of U.S. legislation that requires some shareholders to divest their holdings in the company as a tactic to exert economic pressure on the Sudanese government, which the U.S. administration views as having perpetrated genocide in the Darfur region. Investors view PetroChina as inextricably linked, financially and managerially, to CNPC.

CRN’s initial rounds of outreach drew responses from PetroChina, whose investor relations department replied that the company was unable to discuss Sudan-related concerns because PetroChina itself has no direct operations in Sudan (these are conducted by CNPC). CNPC did not respond to this initial outreach or to outreach over the past year, which included requests for discussion of risks and impacts relating to southern Sudan’s high stakes secession from the north. These requests were directed to executive level, HSE and research institute contacts at the company on behalf of CRN’s institutional investor partners. They also were directed to company representatives who have been associated with a UN Global Compact group on responsible investment in conflict-affected countries, with which the U.S. administration views as having perpetrated genocide in the Darfur region. Investors view PetroChina as inextricably linked, financially and managerially, to CNPC.

CNPC’s lack of response to CRN’s outreach in the past year contrasts with other oil-sector firms such as Atlas Copco, Petronas, Petrofac, Schlumberger, and Wärtsilä Oyj, who participated in direct meetings with CRN. Discussions with these companies are ongoing, and initial conversations — with representatives from legal, corporate responsibility, investor relations and other departments — covered specific risks related to the context in Sudan,
company actions to mitigate them, and relevant company policies such as those relating to security and civilian protection. In addition to the round of outreach related to southern Sudan's secession, CRN's experience with CNPC contrasts generally with engagements with other major multinational firms such as BP, ConocoPhillips, ENI S.p.A., Marathon, Royal Dutch Shell, Statoil and Total, who responded positively to CRN's requests to discuss concerns about other conflict-affected areas.

Efforts towards engagement with CNPC became more promising recently, when CRN incorporated two additional tactics. One was involvement in a U.S.-based non-governmental organization's efforts to coordinate a multi-organizational conference with the company. The event focused on information sharing and presentations by Chinese government and company representatives, and some discussion of issues of common concern or interest (such as China's emerging policies on the environment and overseas investment). The forum enabled CRN to gain better insight into the company's perspective on its investments in Sudan, which should be constructive in shaping future discussions. More importantly for the short term, it allowed for face-to-face interaction with company representatives.

This interaction provided a potential entry point for pursuing substantial dialogue, but also seemed to bolster another tactic underway. Concurrent with this event, CRN had been leveraging expertise and relationships held by organizations with an on-the-ground presence in Sudan. One European organization in particular was willing to connect CRN with a CNPC contact in Sudan. This contact has been responsive — perhaps in part because of the reference provided by the other organization — and, following CRN's mention of its recent interface with representatives at the conference in the United States, offered to arrange a direct meeting between CRN and CNPC in Beijing, China or Juba, Sudan.

Summary

Based on its most recent interaction with CNPC, CRN is poised to meet the company in Sudan and/or China. CRN hopes this will represent the beginning of a constructive, ongoing dialogue with the company that allows for an accurate understanding of impacts related to its business and risks specific to conflict-affected areas such as Sudan; discussion of opportunities for the company to contribute to stability in conflict-affected areas; and discussion and recommendation of policies and practices critical to responsible corporate behavior.

Despite positive developments, challenges for impactful engagement remain. A primary one is identifying an ultimate center within the company for addressing CRN and its investor partners' long term concerns. New face-to-face contacts and those referred by friendly organizations have provided some traction, but it is yet unclear whether the company has departmental or other structure for generating policy and addressing issues related to corporate responsibility. Transparency on this — such as that provided by many major multinationals, which provide points of contact for civil society and CSR-related inquiries — would be helpful.

Learn more about CRN and its work

For more information on CRN's research and reports on companies in conflict-affected areas, please contact CRN's director, Kathy Mulvey, at kathy.mulvey@endgenocide.org. For more information on CRN's engagement efforts, please contact David Kienzler, CRN Analyst, at kienzler@endgenocide.org.

158 A sample of CRN's past research on CNPC is available here: http://crn.genocideintervention.net/files/China National Petroleum Corp_2010.pdf.
Conflict at CNPC’s pipelines project in Myanmar (Burma)

Unless otherwise noted, all information is derived from the Shwe Gas Movement’s Sept 2011 report Sold Out: Launch of China pipeline project unleashes abuse across Burma. The organization based its report on field investigations done by local people and desk research.

Project description

The ‘Shwe’ (meaning ‘golden’ in Burmese) gas project entails 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. There are several components of the project, which have been undertaken by five foreign companies along with the Myanmar Oil and Gas Enterprise. As one of those foreign companies, China National Petroleum Corporation, through its subsidiary the Southeast Asia Pipeline Co. Ltd., is constructing:

- A deep-sea port and oil storage facilities on Maday Island that will allow oil tankers to offload oil from the Middle East and Africa before further transporting it to China via overland pipelines. CNPC contracted construction to HydroChina Co., which sub-contracted the transportation of materials to a Burmese company. According to Oil and Gas Journal, construction on the deep-sea port began in October 2009.

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

Project impacts

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

- Land confiscation: Thousands of acres of farmland have been forcibly confiscated in Arakan and Shan states as well as Magwe and Mandalay divisions to clear areas for the pipeline and associated infrastructure. If compensation was provided, it is often a one-time, meager payment. For example, 13 farmers in Shan State reported being brought to a local courthouse and forced to sign over their land for a one-time cash payment

159 In addition to CNPC, the other foreign investors include South Korea’s Daewoo International and KOGAS, as well as India’s Gas Authority of India Limited (GAIL) and ONGC Videsh.
of 40,000 kyat per acre when their land produced 500,000-600,000 kyat per acre each year from cultivating rice paddies and seasonal crops.

• **Loss of livelihood:** A majority of the local population are either farmers or fishermen. Many farmers have had their land confiscated or trampled by project equipment. At the same time, the Burmese navy is restricting local access to fishing areas and levying taxes on local fishermen.

• **Increased militarization and abuse:** Increased conflict between the Burmese military and ethnic militias has been reported in project areas as the government attempts to consolidate power in ethnic areas. Roughly 6,600 Burma Army soldiers have taken up posts in at least 21 townships along the pipeline corridor. Increased abuses including forced labor, forced evictions and rapes have been reported.

• **Lack of economic development:** According to the Central Intelligence Agency World Factbook, Burma consumes less than five percent the amount of electricity consumed by Thailand or China. In Arakan State, from which the Shwe gas flows, 90 percent of households use candles for light and firewood to cook even though natural gas would be a safer option. Yet reports indicate that residents along the pipeline route will not have access to the Shwe gas, which will be shipped to China. In response to their lack of access to the natural gas, the Arakanese people have begun to protest the export of the fuel to China, including a 250-person protest in the state capital of Sittwe on 17 January 2012.\(^\text{160}\)

• **Corruption:** The Myanmar government will make an estimated US$ 29 billion over 30 years from the sale of the Shwe gas to China. The sale of natural gas accounted for nearly 50 percent of Burma's export revenues in 2008-2009. The revenues from the oil and gas sector in Burma have no independent oversight and are recorded in Burma's public accounts in kyat at the official exchange rate of 6 kyat to 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.

• **Environmental degradation:** Forests have been clear-cut to build the pipeline corridor, rivers have been dredged for materials to construct the deep-sea oil terminal, and human waste has been dumped in a local creek used by local people and their livestock.

**Stakeholders**

To date, communities in Arakan state have been most affected by the project. Among those impacted by CNPC’s deep-sea port and oil storage facilities are local communities on Maday Island in Arakan state. At least seven communities in nearby Kyauk Phyu Township, Ramree Island have bore the brunt of impacts from offshore gas drilling and related infrastructure. The pipeline corridor is beginning to impact communities throughout Shan state (including Namkham and Mungwe townships), Magwe division and Mandalay division. NGOs such as the Shwe Gas Movement and EarthRights International have done extensive research in these areas to better understand the situation of local people and provide that information to the international community.

**Further resources**

For more information, see Shwe Gas Movement’s September 2011 report, *Sold Out: Launch of China pipeline project unleashes abuse across Burma* at [www.shwe.org](http://www.shwe.org).

\(^{160}\) “Press release: Arakanese take to the streets to demand gas be used for Arakan electricity,” Shwe Gas Movement, 17 Jan 2012.
Local impacts and labor relations at Hope Oilfield, Aktobe, Kazakhstan

Drafted by Friends of the Earth-U.S. with interviews and information collected by an independent journalist in Kazakhstan

In one of CNPC’s joint venture projects in Kazakhstan, environmental pollution and disputes with workers are fostering local resentment against the company.

Project description

The Hope Oilfield is a joint-venture project of CNPC and Kazakhstan’s state-owned AktobeMunaiGaz that began in 1997. According to the 20-year contract between CNPC and the Government of Kazakhstan, the company agreed to invest no less than US$ 4 million to develop oil reserves located in the Aktobe region of Kazakhstan. The contract includes the rights to develop an oil and gas deposit in Kenkiyak Subsalt, an oil deposit in Kenkiyak Suprasalt, an oil and gas condensate deposit in Zhanazhol, and conduct exploration activities in the central territory of the Eastern Caspian Trench (an exploration block of 3262 sq km).

Recent developments

The CNPC-AktobeMunaiGaz company is steadily becoming one of the five leading oil and gas operators in Kazakhstan. Annual production the field's oil has more than doubled since the launch of the CNPC-AMG joint venture. In terms of gas production, the company produced more than US$ 6 billion worth of the fuel from the Aktobe concession by 2010. At the end of that year, CNPC reported that the joint venture made new geologic discoveries within its Aktobe concession, which would further scale-up CNPC-AMG’s production in the region.

Impacts of the project

Environmental and health impacts: Over the course of the project, CNPC-AMG has repeatedly been cited for environmental violations by the relevant environmental protection authorities, earning its title as one of the main environmental polluters of the Aktobe region. On June 8, 2011 an explosion at a drilling site operated by the Great Wall Company, a CNPC subsidiary, burned toxic gas and oil for four days in Aktobe. Additionally, in October 2010, Kazakhstan environmental protection authorities issued 24 administrative penalties against CNPC-AMG due to violations of environmental regulations; eight claims were brought forth against the company and four of its oil wells were suspended for environmental reasons. Separately, government transportation authorities cited the company for violating worker safety regulations along its pipelines, and the regional environmental prosecutor ordered CNPC-AMG to pay more than US$
8 million in air pollution fines after the company illegally burned more than 180 million cubic meters of petroleum fuel.163

The communities surrounding the company’s concessions have suffered substantial health impacts as a result of their constant exposure to noxious fumes from the oil and gas fields. One local resident of Kenkiyak, a high-elevation village of roughly five thousand people said, “We’re being poisoned [by] the hydrogen disulfide, the torch is constantly burning, and the smell is unbearable… At night people choke, they have to close their windows. They wake up in the morning with headaches. At school, children fall into a haze… The rate of [diseases such as leukemia] is awful…and the local population is just in poor health.” Yet the villages do not have medical equipment or trained practitioners to provide adequate care. Residents within some environmental impact zones are owed compensation for ecological and health damages, but they have never received these payments.

_Labor disputes:_ CNPC’s joint venture project in Aktobe is involved in multi-year labor disputes that have oil workers throughout the country protesting low and unequal pay, poor working conditions, and the persecution of independent trade unionists.164 In 2009 company management was caught underpaying 1,381 workers a sum of more than 100 million Tenge (US$ 1 equals approximately 145 Kazakh Tenge).165 According to one driver with the Specialized Transportation Authority of CNPC-AMG who has been with the company since 2005, “An oil worker loses his health; you work for ten or fifteen years and that’s it. You’re very sick. And you can’t buy an apartment on your fifty thousand [Tenge] monthly wage. You can save for many years, but are you going to go without food?”

Workers are increasingly angry that CNPC-AMG and other oil companies around the country have chosen confrontation with workers instead of negotiated settlements. CNPC-AMG workers said the Kazakhstan Prosecutor’s Office announced that an investigation had turned up infringements of workers’ rights, and the company fought hard to invalidate the findings. They also accused the company of not following through with promises to allow representative trade unions and new collective agreements. According to one veteran oil worker, “With every year peoples’ patience runs out because of the working conditions and the social conditions.”

In Kazakhstan, the government responds harshly to protests. Therefore workers’ strikes are last and desperate measures. Perhaps the largest workers’ strike at CNPC-AMG’s project happened on July 16, 2010 when hundreds of workers stopped production on the wells at Janajol and Kenkiyak.166 Following the protests, the management of CNPC-AMG fired three workers whom they accused of organizing the strike167 and demanded payment of three million Tenge from former workers for organizing the strike.168


Corruption: In January 2010 information was released implying that the leadership of CNPC in Kazakhstan had paid bribes to obtain 25 percent of CNPC-AMG. Kazakh officials denied the accusations. Also, at the beginning of 2010, communications were released implying that CNPC-AMG had conducted illegal financial transactions with fraudulent firms in order to evade paying taxes.

Local stakeholders

The authorities have harshly repressed civil society in the Aktobe region in the name of fighting terrorism. Therefore, there are few community representatives who are able to speak on behalf of local people. One such independent organization is the Bastau trade union, which seeks to increase worker salaries and win the right to organize independently of the company management-controlled trade union.


**Altai gas pipeline, Russia**

The Altai gas pipeline is a proposed natural gas pipeline to export natural gas from Russia's western Siberia to northwestern China. It will travel from northern Siberia’s Yamal-Nenets Autonomous Region south to Novosibirsk, Barnaul, the Ukok Plateau, and the Kanas mountain pass, to Xinjiang Uyghur Autonomous Region’s West-East Gas Pipeline in China.

In 2009, Gazprom and China National Petroleum Corporation signed a Memorandum of Understanding on cooperation in the natural gas sector and in 2010 agreed upon an Extended Major Terms and Conditions of Natural Gas Supply from Russia to China. The 30-year export contract was expected to be signed in 2011 but has been delayed.

- Proposed annual carrying capacity of the pipeline: 30 billion cubic meters (bcm)
- Total length of the pipeline: 2,600 km (1,600mi)
- Length of the pipeline within Altai Republic: 591 km (367 mi)
- First supplies planned for 2015
- Estimated project costs: US$30 billion (varies over time)
- Builder and operator: TomskTransGaz, a subsidiary of Gazprom (Russia)
- Gazprom and CNPC will retain ownership of their respective portions of the pipeline

**Developments to date**

The pipeline is to be built according to a 2006 “Memorandum on Natural Gas Deliveries” signed by Gazprom’s Alexey Miller and CNPC CEO Chen Geng. Since entering into this agreement, the stumbling block for negotiations between the companies has been gas pricing. Russian leaders and Gazprom are asking CNPC to pay European prices, while CNPC refuses to do that, pointing to cheaper Central Asian gas prices. Nonetheless, Russia seems confident that a deal will be reached. According to local sources, Gazprom has not waited for a final agreement to begin pipeline route planning and other exploratory work inside the Ukok Quiet Zone Nature Park of the Ukok Plateau and throughout the Altai Republic. However, this work occurred without first conducting an environmental impact assessment or holding public hearings about the project. As of January 2012 a handful of local lawsuits and investigations were underway as a result of Gazprom’s premature exploration work.
Potential risks of the Altai gas pipeline project

Along most of its length, the pipeline will be built alongside existing infrastructure. However, all new construction crossing Altai Republic will damage natural habitats, biodiversity hotspots, archaeological monuments, and the sacred sites\textsuperscript{172} of indigenous Altaians and other indigenous minorities, interfering with their traditional life ways (semi-nomadic, livestock, agriculture, etc.) and subsistence-based natural resource use.

The Ukok Plateau has sacred significance for many indigenous groups of Altai. The indigenous groups here merged with the Russian Empire in the 1700s to gain protection from warlords in the south and east (present-day China and Mongolia). The Telengit people, a small minority group native to the area, have conducted worship rituals and burials on the plateau since time immemorial. In 2009, the Telengit established a Republic-level Territory of Traditional Natural Resource Use in the Kosh-Agach District. The TTP protects the Telengit people’s right to practice their traditional subsistence and economic activities, including resource use and cultural practices, regionally and on the Ukok Plateau. Any construction on the plateau would disrupt these activities, which would be a violation of three international conventions that Russia has ratified, two national laws protecting the rights of indigenous peoples, and two national environmental protection laws. As the plans now stand, the pipeline would transect the TTP.

The main environmental and social/cultural threats are:

- Destruction or desecration of sacred lands/natural monuments on Ukok Plateau (considered sacred throughout) and along the entire pipeline route in Altai Republic;
- Passage through and damage to the “Golden Mountains of Altai” UNESCO World Heritage Site (and China’s proposed expansion to include Kanas National Nature Reserve\textsuperscript{173});
- Damage to biodiversity hotspots, interference with migratory routes and breeding habitats, negative impacts to water quality;
- Threats to the Katun River watershed (major tributary to Ob River);
- Destruction of high-altitude tundra and permafrost wetlands (increased greenhouse gas emissions);
- Destruction or damage to cultural, archeological, and historical landmarks (Kalbaktash petroglyphs in Chui-Oozy, Ukok Plateau, etc.);
- Decreased/changed access for traditional natural resource use and life ways by indigenous peoples; and
- Service roads built for pipeline construction would provide access for poachers, both increasing access to endangered species and easing export of illegally-harvested flora and fauna.

Moreover, Altaians are fearful that a pipeline is a prelude to creating an international border crossing in an area where there is currently no contact between Russia and China, further opening the area up to outside development that would devastate their traditional livelihoods without even access to affordable local gas or stable job opportunities.

\textsuperscript{172} Sacred natural and archaeological sites (petroglyphs, kurgan burial mounds, stone stelae, sacred mountains, rivers, springs, etc.).
\textsuperscript{173} http://whc.unesco.org/en/tentativelists/5533/.
Local stakeholders

The Telengit established the Ere-Chui Association of Obshchinas of the Telengit Small-Numbered Minority People in 2008 to protect their legal rights and support their traditional life ways. Additionally, Fund for 21st Century Altai, Tengri School of Spiritual Ecology, and Siberian Environmental Center formed the Save Ukok Coalition and are conducting a broad public campaign and outreach as well as technical analysis of pipeline impacts. Greenpeace-Russia and WWF-Russia are also actively involved. Internationally, Pacific Environment and The Altai Project (Earth Island Institute) are advocating on behalf of the native Altai people.

The Ere-Chui Association of Obshchinas of the Telengit Small-Numbered Minority People and the Save Ukok Coalition are requesting that the pipeline be rerouted to avoid the Ukok Plateau entirely.

Further resources

The Altai Project: http://altaiproject.org/
Pacific Environment: http://pacificenvironment.org/
Save Ukok Coalition: http://saveukok.ru/

Conclusion

In conclusion, there is evidence that CNPC is making incremental progress towards improving its environmental and social governance, although at this point it is mostly driven by necessity at the ground level without adequate support from the corporate and governmental levels to streamline and institutionalize good practices. However, as CNPC’s global expansion extends the impact of its activities, a broader group of stakeholders are demanding accountability and encouraging the company to improve its performance. As petroleum reserves continue to diminish while demand throughout the world is on the rise in the coming years, addressing environmental and social issues associated with extraction will be increasingly paramount to safeguarding communities, preventing conflict and protecting the environment.

Thus far, CNPC headquarters has not taken up in earnest the challenge of providing substantive environmental and social governance to its subsidiaries in the field. Although the company has an HSE management system and requires its subsidiaries to carry out some charity and community programs at its overseas projects, the more fundamental safeguards for society, workers and the environment, such as publicly disclosed impact assessments, community involvement in decision-making, greater public accountability for environmental protection, established and implemented anti-corruption policies, and recognition of independent trade unions have not been addressed.

At the same time, the Chinese government has taken the lead in the development of a Chinese CSR culture and localization of international standards. However, like other governments, it has hesitated to go beyond CSR and voluntary measures by promulgating policies that hold Chinese overseas companies accountable for environmental and social damages. Without the government’s leadership on environmental and social governance, CNPC and other Chinese companies are unlikely to prioritize these issues at the corporate level.

Instead, the case studies presented in this report show that, to date, good or better practice in CNPC’s environmental and social performance has been led by CNPC subsidiaries. They are on the frontlines confronting challenges such as conflicts with communities, corruption, and operating in environmentally sensitive or conflict-affected areas. In some cases such as Peru and Iraq, the local subsidiaries have innovated solutions without set policies from above. However, in other cases, CNPC subsidiaries have not effectively mitigated environmental and social risks of their oil extraction activities. With stronger corporate policies that draw both from the experiences of CNPC subsidiaries and incorporate international best practices, CNPC can be in a better position to improve its overseas performance in a substantive and systematic way.

The following steps could help CNPC better manage its overseas environmental and social risks, and preserve long term value for both its independent and governmental shareholders:

• Appoint people with expertise about environmental and social risk in the oil industry to the new CNPC board of directors and to the company’s Supervisory Committee; expand the remit of PetroChina’s HSE board committee to include environmental and social risks for overseas operations;

• Create a company-wide management system with adequate staffing, processes and procedures and to mitigate environmental, social and political risks, especially with respect to overseas investments;

• Within such an environmental and social management system, adhere to international norms and best practices, including those relating to anti-corruption, stakeholder engagement and avoiding of the most environmentally sensitive areas; require the use of environmental and social impact assessments, including human rights impact assessments;
• Establish a department at company headquarters to liaise with the public; this person should be trained to speak about environmental and social issues, and be empowered to work within an internal process to address concerns;

• Establish “community liaison officers” in each community living near CNPC’s operations in host countries; and

• Establish a clear process for local people to raise concerns directly with the company, including resolving minor disputes and raising major disputes to the attention of company decision-makers; such a process should include a “grievance mechanism” where people can submit grievances about a project and receive a response.