

1 • CARMICHAEL COAL MINE, AUSTRALIA

Transparency about no coal funding for Australian mega-mine

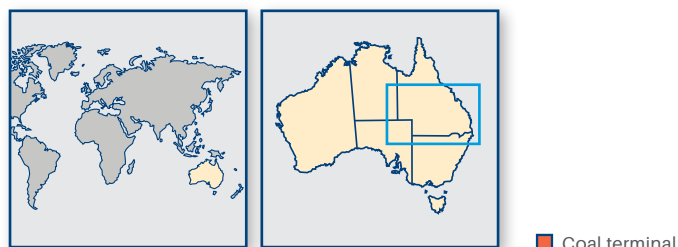
ABOUT THIS SERIES

China is increasingly investing overseas, meeting with environmental and social challenges in the process. A detailed regulatory framework to guide Chinese overseas investment exists on paper. This series examines cases where environmental and social responsibility have been implemented in an

exemplary fashion, effectively contributing to the avoidance of harm and a positive image of China as a responsible global player. The series aims to encourage local groups to constructively engage Chinese investors with these best practice references in mind. It also aims to help Chinese authorities in their efforts to effectively guide Chinese overseas investors towards routinely achieving an excellent environmental and social responsibility performance.

OVERVIEW

In 2017, Indian company Adani was seeking financing for the Carmichael mega coal mine in Australia. The Australian government supported the mine and even lobbied Chinese institutions on behalf of Adani to support the project. In the context of a high profile campaign against the Adani project, the four banks issued statements that they do not intend to finance the Carmichael project, setting a precedent for high transparency as well as sending a highly significant signal about China’s relation with coal-based development in the post-Paris Agreement world.



■ Coal terminal



Map of the proposed Carmichael Coal Mine. Source: Environmental Law Australia

Chinese institutions involved

Commercial Banks:

- China Construction Bank
- Industrial and Commercial Bank of China
- Bank of China
- China Merchants Bank

Engineering, Procurement and Construction Company:

- China Machinery Engineering Corporation

Authorities:

- National Development Reform Commission
- China Banking Regulatory Commission
- Chinese Embassy in Australia

Key actors in Australia

Authorities:

- Department of Foreign Affairs and Trade

NGOs:

- Stop Adani Alliance
- Market Forces
- The Australia Institute
- The Sunrise Project

THE PROJECT

The proposed Carmichael Coal Mine by Adani Mining Pty Ltd. would be the biggest coal mine in Australia. At full capacity it would produce up to 60 million tons of coal per year and 4.7 Gigatons of CO₂ emissions over its lifetime (Amos and Swann 2015). The project is estimated to cost 16.5 billion Australian dollars and includes a 189 km railway line to the export port at Abbot Point which Adani also has plans to expand (Queensland Government 2017).

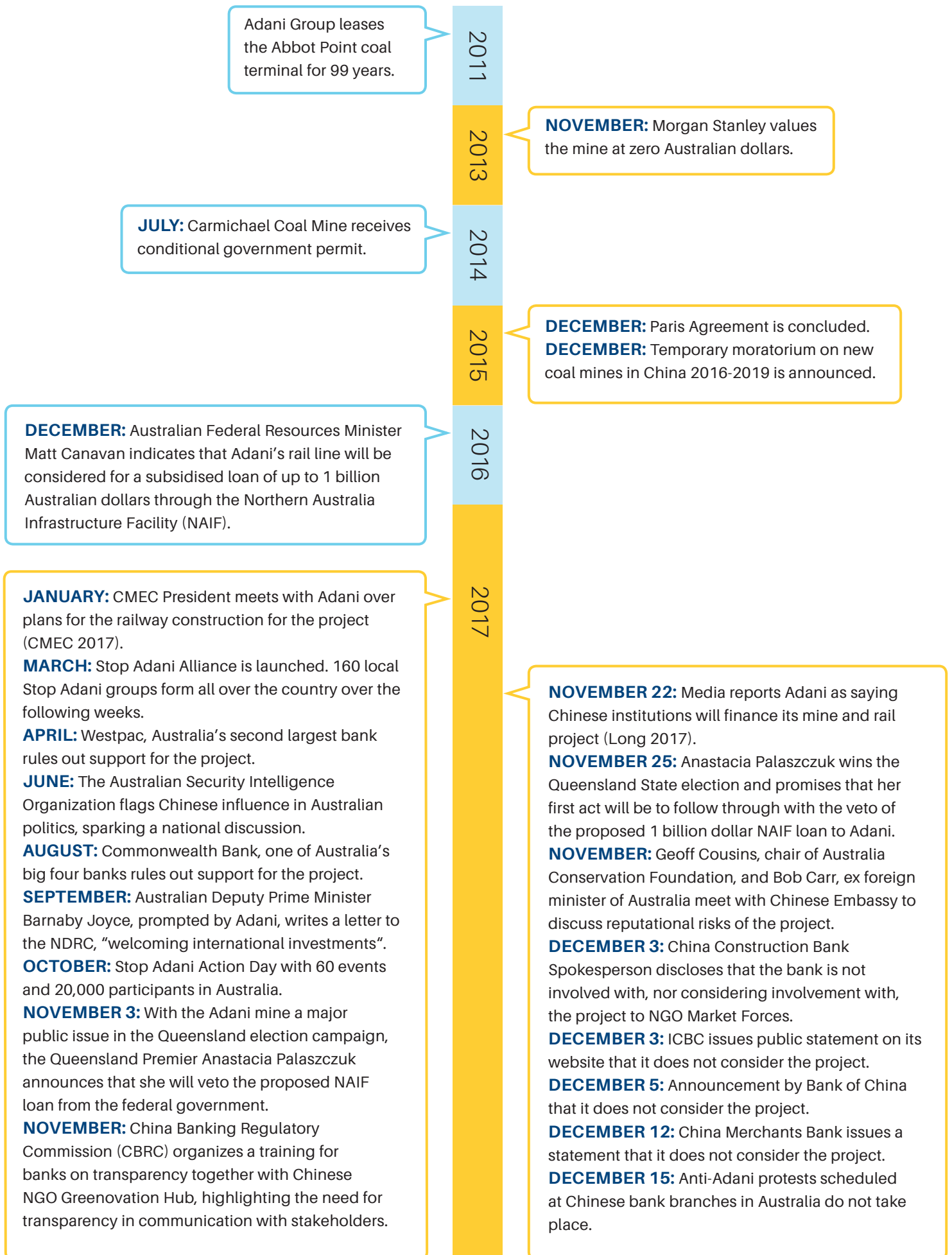
There has been sustained opposition to the Adani Carmichael mine from environmentalists, indigenous people, parts of the Great Barrier Reef tourism industry and even other parts of the Australian coal industry. Criticism of the project has been brought forward on the following issues:

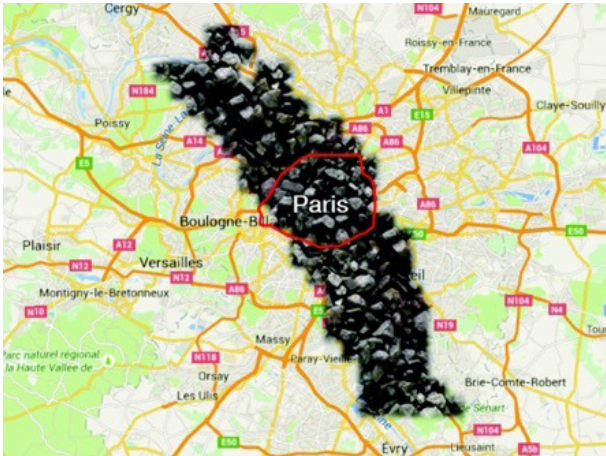
- **Indigenous land rights:** Local indigenous landowners oppose the project (Borschmann 2015).
- **Local ecological impacts:** Endangered and legally protected species live on the land.
- **Regional ecological impacts:** The project would significantly impact groundwater dynamics in the region. The Great Barrier Reef would be impacted by the export of the coal which would have to cross the reef.

- **Climate change:** The project represents a major new source of CO₂ emissions and goes fully against the trend of reducing these.
- **Subsidies:** Government support from both Queensland and the Australian Federal Government has been requested to make the project viable.
- **Financial viability:** The financial viability of the project has been called into question. The coal is of relatively low quality and the investment would only produce an acceptable return with high coal prices.
- **Economic impact:** The owners of the Newcastle coal port (the world's largest coal export port, part owned by Chinese interests) commissioned research that showed that the Adani mine would negatively impact on their business on the basis that adding new coal supply into a flat market will reduce production from existing mines.

Critics have gathered in the Stop Adani Alliance and organized protests against the mine around the country. The Australian government has been a strong supporter of the project, lobbying Chinese institutions on behalf of Adani to secure financing for the mine.

TIMELINE





Comparison of the size of the proposed mine and Paris disseminated during COP21. Source: The Australia Institute

POLICY RELEVANCE

China's reputation

This case illustrates that major reputational risks can be associated with such projects, even if strongly supported by the Australian government. The Carmichael project is unpopular in Australia, with surveys showing that 65% of Australians are opposed to the mine. In this context, taking into account information provided by non-governmental organizations can help provide a more complete picture of the reputational risks facing Chinese actors in other countries.

Coal

China is well known internationally for its coal pollution. Although China is slowing down its carbon emissions domestically, financing a very controversial and fiercely resisted coal project overseas that goes against the Paris Agreement would have reinforced that bad reputation. The Paris Agreement has set an ambitious target for limiting climate change (1.5°C at the lower end, well below 2° at the higher end) and a mechanism to achieve it, which consists of a first round of Nationally Determined Contributions and

subsequent rounds of increasing mitigation ambition. Preliminary research recommends that no new coal, gas or oil infrastructure is admissible under the Paris Agreement (Muttitt 2016).

The post-Paris move away from coal and president Xi's agenda of fostering a green, sustainable lifestyle runs counter to worrying trends in Chinese overseas investments (Kaiman 2017, Zuvella 2017, Phakathi 2017), including in Belt-and-Road countries where the "Green Belt and Road" is turning brown with abundant coal projects (Ren et al. 2017).

Transparency & communication

The Green Credit Guidelines state that regarding "credit information involving major environmental and social risks, banks shall disclose information as required by laws and regulations and subject themselves to market and stakeholder supervision."

The Key Performance Indicator 5.24.3 says "The banking institutions shall keep communication and interaction with stakeholders through various effective ways so that the banking institutions can improve its environmental and social risk management by accepting suggestions and opinions developed by the stakeholders." In the case of disclosing information about the process on this project to NGOs and publishing statements on their website, this is exemplary good performance.



Protestors against the Carmichael coal mine



The indigenous owners of the land, the Wangan and Jagalingou people reject the coal mine. The government is willing to force them to accept compensation

POLICY RECOMMENDATIONS

- Establish/strengthen dedicated mechanisms to receive civil society input to complement government information, as well as communicate relevant internal developments.
- The Embassy in each country should pay close attention to public sentiment around each project, as well as on China in general.
- CBRC should instruct banks to update project evaluation requirements for energy sector projects to include a Climate Test to establish compatibility with the Paris Agreement, as it is responsible for the supervision and administration of banks' green credit operation and environmental social risk management.
- Chinese enterprises should learn from international risk assessment and management experiences and incorporate international good practice into their standard procedures.
- Regulators should develop specific risk assessment standards to guide (and against which to evaluate) environmental and social risk management practice of companies.

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