

China's 'Steel Dragon' in Tibet and Canadian investment

Briefing by the International Campaign for Tibet and Canada Tibet Committee,
February 12, 2008



Most passengers on the railroad from Golmud and beyond traveling to Lhasa are Chinese migrants, settlers and tourists. This image depicts a group of passengers getting ready to board the train at the Nagchu (Chinese: Naqu) station on their way to Xining. (July 2007). Image: ICT.

Canadian companies are playing a key role in China's ambitious plans to begin large-scale extraction of Tibet's mineral and other natural resources for the first time, linked to Beijing's political agenda of ensuring its control over the Tibetan people, according to new findings by the International Campaign for Tibet.

This briefing by the International Campaign for Tibet (ICT) and the Canada Tibet Committee (CTC) reveals how the construction of the world's highest railroad across the Tibetan plateau has changed the dynamic of investment in Tibet, attracting Canadian and other foreign investment for the first time, to the detriment of the Tibetan people and the region's fragile high-altitude environment.

Mary Beth Markey, Vice President of the Washington, DC-based International Campaign for Tibet, said today: "Foreign companies investing in Tibet are participating in a political and strategic agenda aimed at strengthening the Chinese state's authority and control over Tibetan areas. This commercial interest coincides with a time in Tibet's history when ordinary Tibetans have no real say in decision-making on their country's future. We urge Canadian investors to implement guidelines that aim to ensure the genuine participation of Tibetans in the development of their economy."

"This is exactly why the Canada Tibet Committee threw its support behind Canada's National Roundtables on Corporate Social Responsibility and the Canadian Extractive Industry in Developing Countries," said CTC Executive Director Dermod Travis. "Canadian mining companies must be the leaders in social responsibility practices throughout their foreign mining operations and not the laggards that they have too often been."

The new US\$4.1 billion rail link from Qinghai to the Tibet Autonomous Region is a quantum leap in Beijing's strategy to accelerate development of its western regions, which is one of the major dynamics of contemporary China. It has been a critical factor in consolidating Canadian investment in the region, connecting Lhasa with the rest of China and bringing Beijing much closer to the goal set by Mao Zedong over 50 years ago of integrating Tibet with China.

These ambitious plans are:

- Leading to a 'second invasion' of Tibet by accelerating the influx of Chinese people;
- Causing the further exclusion of Tibetans from economic activity and displacing them from their land;
- Damaging Tibet's fragile high-altitude environment, with disturbing implications for hundreds of millions of people in the entire Asian region;
- Heightening military readiness on the Tibetan plateau through the expansion of Chinese influence and construction of civil and military transport links, causing alarm in neighboring India;
- Causing concern for the survival of Tibet's culture and religion, which is integral to Tibetan identity and important not only to Tibet, but also to China and the wider world.

Investment from China being poured into Tibet is focused, at the state's command, on the construction of long-haul infrastructure, while the provision of health care and education is neglected. This infrastructure is of benefit chiefly to extractive industries and the administrative and military apparatus of the Chinese state in Tibet.

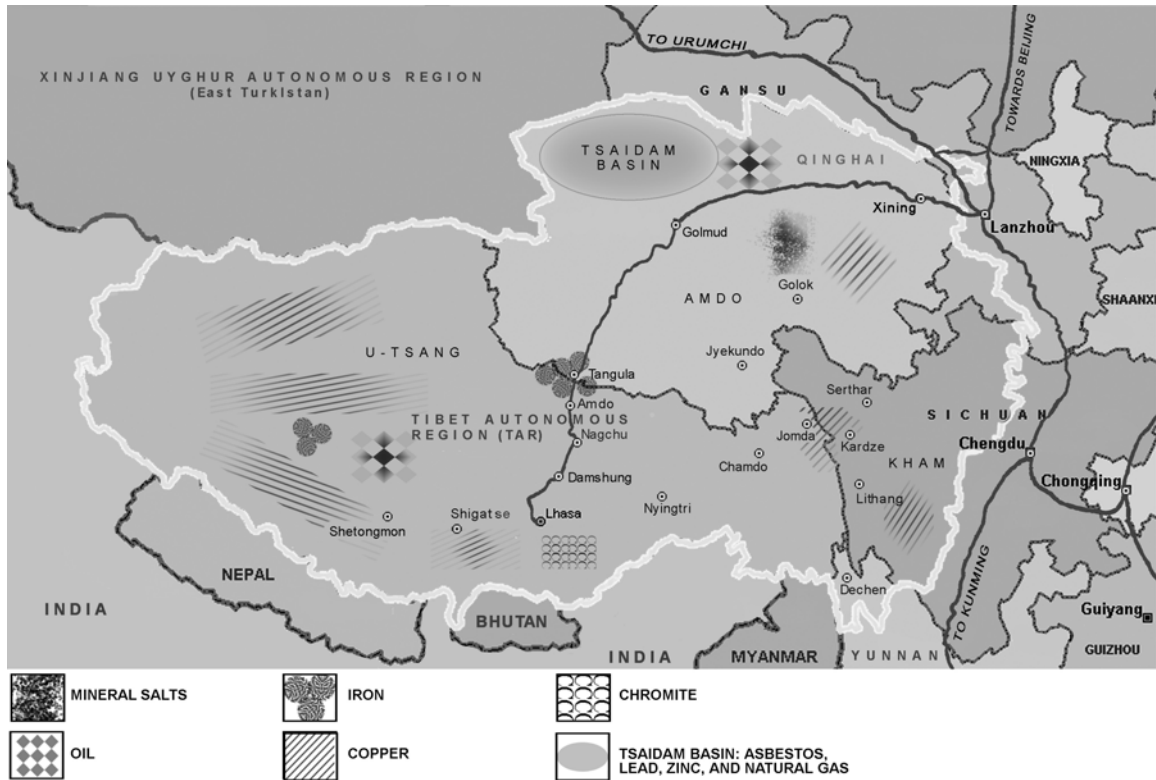
Canadian investment and resource extraction in Tibet

The railroad, which opened in July 2006, provides the infrastructure to facilitate the increased exploitation of Tibet's natural resources by the Chinese state and Chinese companies, as outlined in Beijing's comprehensive plans to develop its western regions, including Tibet. It has also triggered the controversial involvement of foreign companies in the region.

China's 'Western Development Strategy' is a high-profile political campaign, initiated by the then Chinese President and CCP Chairman Jiang Zemin in 1999-2000, and intended to address economic, regional, ecological, and security concerns. It is an enormous undertaking, affecting more than 70% of the PRC's land area and almost a quarter of its vast population, including Tibetans, Uyghur Muslims and other 'national minorities'. The drive is not restricted to the 10 western provinces of the PRC but includes underdeveloped provinces with large ethnic populations in other regions, especially Inner Mongolia and Guangxi.

The integration of Tibetan areas into China and exploitation of the natural resources of the Tibetan plateau have been priorities since the foundation of the PRC, and the Western Development Strategy represents an acceleration of this process.

The Chinese state media reports that the Tibetan plateau has reserves of several billion tonnes of iron ore, 30-40 million tonnes of copper, plus 40 million tonnes of lead and zinc. China is primarily interested in Tibet's reserves of gold, iron, chromite and copper. Uranium, an important material for nuclear development, is also being mined, although the sites are not made public. The Chinese authorities also recently announced that jade from Qinghai, found in an area close to the beginning of the rail link to Lhasa, would be used to make medals for the Beijing Olympics in August 2008.



Major mineral deposits in Tibetan areas of the People's Republic of China. Note, gold deposits are too numerous and widespread in Tibet to show on this map. Gold and silver deposits are generally found among copper deposits in Tibet. This map does not present a comprehensive overview of all deposits, but singles out some major sites.

Extraction of these resources is a primary motive for building the railroad, together with strengthening the state's command and control over Tibetan areas, and rests upon the state's absolute claim of ownership over Tibet. Article Nine of China's Constitution dictates that every nugget of gold mined, every lump of coal and every tree in Tibet's forests belongs to the PRC.

Previously, natural resource extraction in Tibet was limited by various factors, including Tibet's remoteness, poor infrastructure and resulting lack of interest by foreign investors. It is only now with the coming of the railroad that industrialization is properly beginning, with the beginning of large-scale mining. Investment from outside the People's Republic of China (PRC) is regarded by the Chinese authorities as crucial to the success of China's 'Western Development Strategy'.

Canadian companies investing in Tibet include Continental Minerals, which is conducting a major exploration into copper and gold deposits near Shigatse, Bombardier, which constructed the rail cars for the new train, and Nortel Networks Corporation, which supplied a wireless digital communications system for the railroad. The Canadian company Rail Partners has said that the opening of the Golmud-Lhasa railway symbolizes the arrival of the "railway tourism age" in the PRC, and has invested US\$ 130 million in a joint venture with the Qinghai-Tibet Railway

Company under the Ministry of Railways to develop the potential of the luxury travel market opened up by the new route.

Continental Minerals and other Canadian mining companies in Tibet

“As companies seek to be guided by more socially and environmentally responsible values, we need to ask what corporate responsibility means. This is an especially challenging question for the increasing number of foreign companies working in or looking at working in Chinese-ruled Tibet. This commercial and corporate interest comes at a time in Tibet’s history when ordinary Tibetans have no real say in their country’s development. Tibetans should be participating, directing and benefiting from this development especially when it concerns the exploitation of Tibet’s non-renewable resources such as gold. Therefore, I appeal to all foreign mining companies, and their shareholders, who are thinking about working in Tibet to consider carefully about the ethical values when embarking on such a venture.”

- His Holiness the Dalai Lama, 2003

The majority of foreign companies so far known to have invested in mining operations in Tibet by buying into Chinese operations are registered in Canada – although British and at least one Australian company are also known to have invested in Tibet by partnering with Chinese companies. The Canadian company Continental Mining Inc., for instance, which has a significant stake in developing a large copper, gold and silver mine in Shetongmon County (Chinese: Xietongmen) in Shigatse Prefecture (Chinese: Xigaze) in the southern TAR, entered a partnership agreement with the Chinese company Jinchuan Group Ltd in February 2007.

The head of Continental Minerals, Gerald Panneton, told a Canadian mining magazine that the new rail link to be built to Shigatse would greatly reduce transport costs, saying: “What makes this project economic is that [...] they [the Chinese] built a railroad between the town of Golmud and Lhasa, and it is to be extended all the way towards the project. What this does, because of the existing rail system that you have in China, is give you access to all the smelters.” The link is slated for completion in 2010, and could transport ore to copper processing plants in the Chinese interior. According to one authoritative estimate, Continental Minerals could make as much as US\$ 10 billion from the Shetongmon mine over the mine’s lifetime.

China now hopes that Shetongmon will be a model for future mining projects in the TAR, thus encouraging more foreign investment. Already it has offered substantial incentives to Continental, including the agreement to pay for, and build, the railroad lines between Shetongmon and the

nearest smelter in Gansu Province, via Lhasa, Golmud, Xining and Lanzhou, as well as providing hydropower to the copper concentrator. The Chinese authorities say they will also accept just half the advertised freight rate for the copper concentrate which Continental will send to the smelter, and will exempt Continental from paying any kind of tax to Beijing during its more profitable early years of operation.



Shethongmon (Chinese: Xietongmen) copper mining projects, located 240 km southwest of Lhasa in Shigatse (Chinese: Xigaze), where a Canadian mining company, Continental, is carrying out explorations of the deposits. The image depicts a mobile drilling rig, set up to drill horizontally into the hillside to take a closer look at the deposit. The railroad has been a key factor in the opening of large-scale exploitation of Tibet's mineral and natural resources, helping to consolidate the involvement of foreign corporations into the Tibetan economy for the first time. The extraction of these resources is one of the primary reasons for the construction of the railroad, linked to maintaining Party control and 'ownership' of Tibetan areas. Image provided by a visitor to the area.

Continental Minerals has now bought more land in the area and is drilling to see how much copper is available. It has also announced that a social and environmental impact assessment is almost complete. ICT and CTC are calling for this impact assessment to be made publicly available as soon as possible. Any agreement made at Shetongmon will establish a precedent for the involvement of foreign companies mining in Tibetan areas.

In an interview with ICT, a spokesperson for Continental Minerals down-played its involvement, saying that so far only drilling holes “the size of a beer-can” had been carried out. But it is notable that in trade publications such as the Northern Miner, representatives from the company speak about the significant size of the project and how close it is to completion. Images obtained from the mining site by ICT depict a mobile drilling rig that has been set up to drill horizontally into the hillside, in order to take a close look at the deposit, and drill-tracks can be viewed on satellite images visible on Google Earth.

The Shetongmon project has been criticized by the Tibetan Government in Exile (TGiE) for being on a scale that is too large to benefit local Tibetans. In a statement, the Environment and Development Desk of the TGiE, based in Dharamsala, India, said: “[The Shetongmon mine will] deplete precious Tibetan resources for the profit of distant Chinese state-owned partners and a Canadian company, with only modest royalties provided at provincial level and inadequate compensation locally. [The mine] impacts negatively on an area close to one of Tibet’s most historic towns, namely Shigatse. The large number of mines in Tibet, on a much smaller scale [than Shetongmon], invariably caused destruction, and provided opportunities for an uncontrolled influx of Chinese immigrant workers into Tibet.”

A Continental Minerals spokesperson told ICT that if mining did go ahead at Shetongmen following the exploration phase, there would need to be the relocation of ten households, and that there had been full consultation in the local area about this, including discussion of a compensation package. Continental Minerals also said that attempts were made to hire, and train, Tibetans wherever possible, but that only a third of staff in the Shigatse administration office of the project were Tibetan. They did not preclude sending Tibetans overseas to train for specialist roles in a future mine project.

A Tibetan source who asked to remain anonymous told ICT: “While so far there are little practical benefits for local people, there are promises that this will happen. The question is, what are the sustainable benefits for local people?” A second Tibetan source familiar with the area and the mining project told ICT: “The compensation package given to the locals is a pittance when one considers the huge wages earned by mostly Chinese staff and their generously subsidized lifestyle. At the mining site, local Tibetans are informed about mining/exploration activities, but of course they don’t have a say in the overall decision-making.”

Another Canadian mining company involved in Tibet is Inter-Citic Minerals, which describes itself as “a gold exploration company focused on China” and which signed an agreement in 2006 to continue mining a site in a traditionally Tibetan area of Qinghai Province until December 26,

2033. The Dachang mine, in Chumarleb County (Chinese: Qumalai), Jyekundo Tibetan Autonomous Prefecture (Chinese: Yushu TAP) is jointly run by Inter-Citic with a holding of 87%, and the state-owned Qinghai Geological Survey Institute, which owns the remaining 13%.

Another Canadian company, Dynasty Gold, has a 70% stake in prospecting a large swath of land in the far northwest of Tibet, with Qinghai Geological Survey Institute – the Chinese company in partnership with Inter-Citic – holding the remaining 30%.

Bombardier's railcar investment

The green railcars of the trains along the Golmud-Lhasa route were manufactured by Bombardier, which announced in February 2005 that a joint venture it had formed had won a contract to supply 361 rail cars for the new train line. Bombardier's share of the deal was worth US\$ 78 million. Another Canadian company, Power Corporation, who along with Nortel are in partnership with the Chinese state-owned enterprise Sifang Locomotive, was instrumental in coordinating financing for Bombardier and Nortel's investments in the railroad.

The Chairman and CEO of Bombardier even quoted the Dalai Lama in an effort to justify his company's involvement. Laurent Beaudoin claimed at the company's annual general meeting in June 2005 that the Dalai Lama supported the railroad and other projects because of the development opportunities they brought to Tibet. The Dalai Lama is not opposed to economic development when it improves the well-being of Tibetans, and does not believe there is anything inherently wrong with the construction of infrastructure in Tibet. But the Tibetan religious leader has also said that he is concerned that the railroad will result in "some sort of cultural genocide".

On May 30, 2006, the shareholders of Bombardier were formally invited to reflect on their involvement in the Golmud-Lhasa railroad. A resolution was submitted to Bombardier asking the company to draft and adopt a human rights policy and to arrange for an independent report on its progress towards formulating such a policy. However, Bombardier advised shareholders to reject this resolution, affirming that the company already upholds international principles of human rights. Many large companies including Siemens, Bombardier's European competitor, have already adopted human rights policies.

In answer to a question about the number of Tibetan and Chinese workers employed by Bombardier to construct the railcars, given the marginalization of Tibetan workers as a result of increasing competition from Chinese migrants traveling to Tibet on the railway, Bombardier told ICT that its workforce consisted only of "Chinese and foreign employees". Bombardier added that it currently does not have Tibetan employees at its Chinese joint ventures in the PRC, but that it

had recently launched a Tibet professional training program in tourism management, spending approximately US\$ 1 million to fund 20 poor rural Tibetan students over a three-year period.

Canadian investors in Tibet have deflected criticism by saying that they do not get involved in politics – but Beijing has made the political purpose and nature of the railroad explicit. For instance, Jiang Zemin, the then president of China, said that even though the railroad project would not necessarily be commercially viable, this did not matter much because the construction of the railroad was a “political decision”. (New York Times, August 2001).



This image depicts the Tibetan plateau taken from space. Tibet is often referred to as the ‘roof of the world’ or the ‘world’s third pole’ because it contains the largest ice fields outside of the Arctic and Antarctic. It is now threatened by melting glaciers and other extreme weather phenomena. This image vividly shows how this is likely to affect the lives of millions of people in Asia as well as those on the plateau – Tibet is the source of many of Asia’s major rivers, flowing into India and China. Image courtesy of NASA/Goddard Space Flight Center, Scientific Visualization Studio, svs.gsfc.nasa.gov/goto?2356

Devastation and despair: impacts of China's economic policies in Tibet

China has stepped up its promotion of the railroad to Western governments and the international media as a marker of progress in Tibet. But ICT has monitored the impact of the railroad on Tibet since its opening and reports that:

- Despite years of investment from China, the vast majority of Tibetans are severely disadvantaged both socially and economically by the inadequate provision of education. According to official Chinese statistics, close to half of the population of the Tibet Autonomous Region is illiterate, and the gulf between the educated elite and the urban and rural poor has widened further since the railroad opened.
- While a minority of Tibetans are benefiting from the railroad, there is persistent destitution throughout the PRC, and high levels of poverty in Tibetan areas. Rural-urban inequality in Tibetan areas rose to be the highest in the entire PRC. The total disposable income of Tibetan farmers and nomads is considerably less than half of the average income for China's peasants.
- Tibetans themselves have no say in formulating economic policies for their own land and economy, and neither initiated nor directed the planning of the railroad. Although the railroad will bring economic growth to Tibet, the wealth it generates will be concentrated in urban areas and resource extraction centers, and therefore the main beneficiaries will be Chinese.
- Tibetans lack access to vocational training which could prepare them to compete with the influx of workers from the Chinese interior who are flooding Tibet in search of work and opportunity, encouraged by official policies and the opening of the railroad.
- The number of tourists to Tibet in 2007 hit a record high of 4 million following the arrival of the railway – nearly double the population of the Tibet Autonomous Region. While the Chinese authorities are marketing Tibet as a tourist destination based on the 'exotic' and spiritual attractions of its Buddhist culture and landscape, Beijing has tightened its control over Tibetan religious expression and practice and harsh political repression prevents Tibetans from speaking openly about their lives and culture.

ICT and CTC recommendations for Canadian investors in Tibet

The following recommendations represent a way forward for Tibet. Their purpose is to ensure that the expansion of Tibet's economy will be of benefit to Tibetans. Unless such guidelines are followed, China's economic policies in Tibet, supported by Canadian investors on the plateau, will intensify existing migratory trends, exacerbate ethnic income disparities, and further marginalize Tibetans accustomed to traditional economic pursuits.

The Tibetan Government-in-Exile (TGiE) has issued specific recommendations for businesses to follow when they seek to invest and operate in Tibet, including, for example, recommendations for foreign companies to hire Tibetan management, to use the Tibetan language, to offer skills training to Tibetan people in communities where the companies operate, and to urge the preservation of the natural environment and natural resources.

The TGiE's 'Guidelines For International Development Projects And Sustainable Investment In Tibet' suggest that foreign investors "make efforts to ensure that their participation in Tibet does not: a) Deplete natural resources with little or no benefit to the Tibetan people; b) Facilitate the erosion of Tibetan culture and traditions; c) Facilitate the migration and settlement of non-Tibetans into Tibet; d) Negatively affect the sustainability of Tibet's ecosystems; e) Transfer ownership of Tibetan land and natural resources to non-Tibetans; f) Operate projects without the participation of affected Tibetans; g) Facilitate large-scale, capital-intensive, and commercial projects."

- Investors in all areas designated as "Tibetan autonomous counties, prefectures or regions" should be especially aware that normal business practices of community engagement, consultation, stakeholder involvement and informed consent of all affected communities are especially difficult to achieve in Tibet, requiring special efforts beyond what suffices elsewhere.
- Investors, whether equity partners, partners in joint ventures, contractors or suppliers of technology, services or capital, should recognize the high profile of Tibet globally, and meaningfully engage all stakeholders, including Tibetans and their supporters worldwide, in order to preserve corporate reputations.
- Investors should adopt global best practice standards, going further than technical compliance with national laws, in order to comply earlier rather than later with emerging

global values and expectations of socially responsible investment in areas of minority ethnicity where freedom of expression is curtailed.

- Investors in tourism, hotels, hospitality, entertainment and leisure have special opportunity to invest in training Tibetan staff to occupy managerial positions, and to be the public face of their operations at all levels.
- Investors in mining, resource extraction, processing, concentration and smelting of metals, salts, oil and gas should be particularly aware of the existence of a global public highly aware of Tibet, whose values, like those of Tibetans everywhere, give higher priority to conservation and biodiversity protection than wealth accumulation. Stakeholders, both in Tibet and globally, will expect investors in mining to:
 - impartially educate local Tibetan communities, through independent third party consultants using the Tibetan language, to understand and consider the full range of long-term environmental and social impacts that can be anticipated from proposed mines and processing plants.
 - pay compensation, royalties and resource rental taxes to local communities, rather than provincial or national authorities.
 - set aside sufficient sums to remediate environmental impacts which may occur not only during the productive life cycle of a mine but well after mine closure, especially during extreme weather, earthquakes, floods etc.



The design of the Ne'u (Chinese: Liuwu) bridge over the sacred Kyichu River in Lhasa is intended to resemble Tibetan *khatags* (white offering scarves). (July 2007). Image: ICT.

Recommendations to Canadian development agencies and international donors

- Prioritize developing Tibetan human resources instead of following a model of development typical of a city in inland China that prioritizes raising GDP.
- Project design phase should engage local Tibetan communities at an early stage, even if this requires extra time, so local communities can learn and consider options, impacts and long-term consequences.
- Project implementation should not be left to a Chinese government department or bureau. Effective and meaningful development in Tibetan areas delivers benefits to Tibetans only when the external provider of development finance also closely supervises disbursement and ongoing engagement with local Tibetan communities. Project activities, documentation and reporting to stakeholders should be in Tibetan as well as other languages; and Tibetan-speaking staff should be engaged from design and inception through to implementation and evaluation.

- In practice, be guided by the development guidelines promulgated by the Central Tibetan Administration in Dharamsala.
- Support international NGO programs that provide small loans to rural Tibetan households for investment in new income-generating activities, that offer employable-skills training in rural and urban areas, that support and develop Tibetan enterprises, or that infuse basic employable-skills into rural school curricula.
- Particularly for those international donors funding anti-corruption and environmental protection projects in China, raise the concerns addressed in this report. Encourage the formation within Tibet of community-based organizations that enable local people to voice their concerns without fear of punishment.
- Before entering into any partnerships or contractual dealings with the national or local governments of China, obtain assurances that the land for projects was acquired in a manner consistent with human rights obligations, and that former residents were adequately notified and compensated for their loss of land, property, and income.
- Adopt explicit policies in support of human rights and establish procedures to ensure that the financing of or participation in projects does not contribute to or result in human rights abuses. At a minimum, implement a policy to conduct a “human rights impact assessment” in coordination with local civil society groups.
- Uphold the rights to freedom of expression, assembly, and association. Recognize the rights of Tibetans to speak out publicly on settlement, legal regulations, and other issues of concern.
- Ensure that your infrastructure projects do not result in forced settlement or relocation.

A new report by the International Campaign for Tibet, ‘Tracking the Steel Dragon: How China’s economic policies and the railroad are transforming Tibet’, to be published on February 20, 2008, explores the impact of the railroad in Tibet and proposes a way forward that could benefit Tibetans. For advance copies, contact Kate Saunders, Ben Carrdus, or Chris Ratke at ICT, press@savetibet.org, tel: 1 202 785 1515.

The International Campaign for Tibet is a monitoring and advocacy group based in Washington, DC, and with offices in Amsterdam, Berlin and Brussels.

The Canada Tibet Committee is an independent non-governmental organisation of Tibetans and non-Tibetans living in Canada, who are concerned about the continuing human rights violations and lack of democratic freedom in Tibet.