Introduction

In this paper, I would like to share some insights from China on forging partnerships to support sustainable development (SD) and conservation. The staff at Shell believes it is important to be actively involved in the dialogue around sensitive issues such as protected areas management, and we are keen to listen to the views and experiences of others.

Clearly, multinational companies like Shell are well placed to influence the balance between delivering the development that China seeks and the preservation and enhancement of its nationally and globally important biodiversity. Shell seeks to achieve this through simultaneously building partnerships with the project parties internally, and with stakeholders outside the contractual realm of Joint Ventures, and the other various forms of joint participation that are the most common vehicles for multinational involvement in nationally important projects.

This paper will draw specifically on our experiences with the West-East Pipeline Project in China. This is the second largest State infrastructure project in China and the first in which foreign companies have been invited to participate. Shell is part of an international consortium of companies currently negotiating participation in this complex integrated project.

The paper will highlight some of the issues and dilemmas we face within the context of supporting sustainable development and conservation activities on a major project in China. It will also try and answer the following questions:

- Why is it important for Shell to pursue a ‘responsible’ approach to SD and conservation?
- What are the particular SD and conservation challenges for the West-East Project?
- What have we done to influence the activities of our prospective business partners?
- What are the lessons learnt and where are there future partnership opportunities?
Shell in China

All five of Shell’s core businesses are active in China.

- Exploration & Production (for oil & gas both onshore and offshore, a key project is negotiation of the West-East Pipeline project)
- Oil Products (lubricant sales in more than 250 cities, three lube oil blending plants, two bitumen plants and service/retail stations)
- Chemicals (Nanhai petrochemicals plant currently under construction)
- Gas & Power (power plants and liquefied natural gas – LNG – supply, seeking to invest in power plants & distribution systems, also a coal gasification plant at Dongting)
- Renewables (our China solar business is the largest in the Asia-Pacific with a 25% market share)

China’s energy demands

China, with one-sixth of the world’s population, is the second largest consumer of energy globally. It attracts more foreign direct investment per year than any other country. Its economy has been growing at an unprecedented rate of 7% per year for more than 20 years. Economic growth is predicted to continue at this rate, which will also require a huge increase in energy use.

Coal currently supplies about 70% of China’s current primary energy demand, and will continue to be the major energy source. In the past, coal has caused major environmental problems, notably air pollution and acid rain. The Chinese government is developing clean energy resources such as natural gas, liquefied natural gas and renewable energy, while looking to reduce the environmental footprint of coal by upgrading and improving current coal-fired industry and developing new clean coal technologies.

Though the principle of sustainable development is central to the government’s plan there is still low recognition of this concept in industry today.

Sustainable Development in Shell

Sustainable development lies at the core of Shell’s values and we seek to develop all our operations in China or elsewhere using this principle.

Much of Shell’s business in China is based on joint venture partnerships, which we see as a good opportunity to share practices and develop solutions that meet the requirements of all partners and those of China. Shell has 16 joint venture companies operating in the country, and strives to work with those partners to achieve sustainable development goals.

Shell’s Business Principles were first published in the 1970s. But, in response to changing expectations, an explicit commitment to contribute to Sustainable Development was added five years ago. For staff, this means, “protecting the natural and human environment while also encouraging economic growth”.

Shell is trying to make this happen by ensuring that SD is part of how we do our business – whether it be in the company’s strategies, processes, budget submissions, training, and reward systems. For example, when we in China apply for project budgets, the projects must show how we will address the implications for sustainable development, without compromising the economic requirements of a tough and competitive capital allocation process. Also, we have a rigorous annual assurance process to make sure we are working to live up to our principles everywhere.
West-East Pipeline Project

The West East Pipeline Project is perhaps a good example of a major contribution to sustainable energy use in China.

Shell is part of an international consortium of companies, including ExxonMobil & Gazprom looking to take a combined 45% shareholding in the project, with PetroChina (50%) and Sinopec (5%).

At the moment, negotiations towards finalizing the Joint Venture Contracts are still taking place, so we are not formally official partners in the project yet. Consequently our role to date has been one of influence.

It is a complex integrated upstream, midstream and downstream project costing some US$ 8.5 billion, which brings gas from the north-west of China to the fast developing cities in the east. It forms an important part of the Chinese Government’s plan to increase use of gas and develop cleaner energy resources to sustain economic growth.

The project involves drilling wells in the Tarim Basin in Xinjiang and transporting the gas via a 4,000km pipeline across the country to Shanghai. Along the way, the pipeline will link with additional reserves in the Ordos Basin in Shaanxi Province. First gas is expected into the eastern section of the pipeline from Ordos in early 2004, with Tarim gas coming on-stream in early 2005.

The project will bring enormous environmental benefits to China by harnessing a cleaner fuel and replacing the growth in coal in many eastern cities. It is estimated that it will deliver 20% of China’s projected natural gas demand by 2010. This will have significant health benefits for people living in cities where the gas will replace coal as the primary energy source. If all 12 billion cubic meters per year of gas from the pipeline is used to replace coal, this will reduce annual CO₂ emissions by 8 million tonnes and SO₂ emissions by 400,000 tonnes.

However, the benefits should not be at the expense of the environment or people’s quality of life along the pipeline route and the project presents a number of environmental, cultural heritage and social challenges before this gas can be delivered.

The project is unusual in that Shell, along with its international partners, became involved later than usual. We were selected as a preferred partner for further negotiation in the same month as full construction of the pipeline commenced. We remain in negotiation over participation in this project. We cannot speak for PetroChina, which is now constructing the pipeline. What we can discuss is how we worked with PetroChina to look at the common standards we should use to develop the project, and the environment and social contribution that we believe Shell has made to the project so far.

Environmental challenges

The pipeline runs through 10 Provinces, traversing a wide variety of habitats, from the sparsely populated arid deserts in the west, through the loess plateaus and erosion-prone central plains, into the more mountainous and forested areas, and to the heavily farmed and densely populated region in the east.

The pipeline also crosses 6 State & Pro vincial protected Nature Reserves, the Great Wall of China (a UNESCO Cultural World Heritage site) in 12 locations, and passes close to 4 important State-protected Cultural Heritage sites and several other areas known to be of cultural heritage or archaeological significance. Moreover, as the route follows much of the ancient Silk Road trading
route and undeveloped inland regions, there is high potential for further discoveries during construction.

The social context for the project is also complex. Some of China’s most wealthy counties, as well as some of its poorest are found along the pipeline, reflecting the gap between the developed east coast and underdeveloped interior western regions. Some 3,000 people are being resettled, and up to 230,000 people being compensated for temporary land disturbance and disruption of livelihoods.

**Establishing standards**

Over the past 18 months, Shell has worked with its prospective partners to develop strategies and tools to encourage the West-East project towards international standards and to ensure their implementation on the ground.

Prior to Shell’s entry into negotiations for the project, EIAs had already been conducted for each Province and approved by the Provincial Environmental Protection Bureaus (EPBs) and subsequently by the State Environmental Protection Administration (SEPA). As part of this EIA process, consultation was undertaken by PetroChina and options evaluated for re-routing, wherever considered practical and cost-effective.

Shell has had to work through and balance a myriad of arrangements, including:
- building the case to go beyond mere regulatory compliance;
- justifying broader approaches to stakeholder consultation;
- undertaking an Environmental & Social Impact Assessment (ESIA) to build upon the already Government-approved EIAs.

Shell's first step was to agree on a set of Health, Safety, Environment and Social standards and Sustainable Development principles that would be followed and that met all potential partner needs. Shell signed this document as part of its first agreement on the pipeline.

This was done in parallel with an evaluation of the EIA work that had been conducted and Shell agreed that more work was needed, especially for a social impact assessment, which is not required by law in China.

We agreed to a delay in construction and developed a fast-track ESIA process that allowed construction to start in a phased fashion as work was completed in each area.

A set of minimum criteria were quickly agreed to, which allowed trial construction to start, essential as automated techniques new to China were being used for construction. The minimum criteria covered issues such as construction at cultural relics sites, the Great Wall, nature reserves, avoidance of local communities, compensation and resettlement arrangements, health and safety, and audits/inspections.

This has all been undertaken within a ‘challenging’ context of negotiating a minority shareholding in a non-operated Joint Venture.

**Nature Reserves**

The West-East Pipeline runs through 6 Nature Reserves in five Provinces, three of which are State protected and three Provincial.

Regulations relating to Nature Reserves in China and land use within them recognize three types of management zones: core, buffer, and experimental. While core and buffer zones are meant to
be fully protected from external influences, the experimental zones allow for certain ‘activities’ to be undertaken that do not cause lasting habitat damage, wildlife disturbance or pollution.

The Government permitted the route alignment through certain sections of the experimental zones of the Reserves, a situation that is not uncommon for such developments in China. Regulatory approval for the route had largely been obtained by the time the international partners were selected for further negotiation.

A major re-route to avoid the core and buffer protection zones of the Arjin Shan Lop Nor Wild Camel Reserve was agreed to at an incremental cost of $18 million to the project.

Through the ESIA upgrade and subsequent efforts, Shell has worked closely to influence good practice environmental and conservation measures in each of the protected areas affected by the pipeline route. This has included discussions with Reserve managers, local authorities and local, national and international experts.

Conservation management threats and opportunities

China ranks among the top three countries in the world for biodiversity. It is home to 13% of the world's bird species, 12% of its plant species and over 1,000 internationally protected and endangered species. The Government has launched an ambitious effort to conserve its national resources through a system of protected areas, with some 1200+ Nature reserves covering approximately 980,000 km², roughly equal to 10% of China’s territory.

Whilst there is much to commend this National approach, many Reserves face challenges locally in their day-to-day management. They include:

- Management systems – Reserves often suffer from absence of clearly defined administrative structures and conservation management plans. With limited funds and resources, understaffing and insufficient training, effective management and monitoring can be difficult.

- Financing – Limited funding combined with competing interests between local authority development plans and Reserve conservation has been reported to lead to financial and political pressures to accept commercial activity within protection zones (e.g., forestry, agriculture, mining, infrastructure). Some Reserve managers and local authorities see eco-tourism as the answer to the financial sustainability of their Reserve, a view considered inappropriate and unrealistic for most cases according to experts consulted.

- Ecosystem / biodiversity study – Experts generally agree that many protected areas would benefit from further biodiversity assessment and broader understanding of the dynamics of the ecosystems to be protected.

- Local communities – More coordinated approaches to understanding the needs and pressures of local communities, and concerted efforts to engage these groups to seek their participation in conservation efforts, are required.

- Development pressures – There is a widely recognized need to better understand the pressures of future development. More comprehensive evaluation is warranted in several areas where work to date has focused on short-term impacts.

- Governance – Greater clarity over jurisdiction amongst local, regional and national authorities is necessary, particularly for the more newly established areas. Strict and effective enforcement of boundaries, and human activities inside Reserves is reported as a consistent difficulty.

Indeed, these issues are symptomatic throughout many Nature Reserves in China. Whilst the private sector cannot solve all of these problems, there are some significant opportunities for collaboration with conservation groups.

These include:
• Provision of technical know-how exchange programmes to share skills in reserve management, for example, through regional conservation organizations, such as IUCN.
• Support for ongoing biodiversity research and conservation studies, with recognized experts. An example is the work done by the Shell Foundation / Smithsonian Institution’s Monitoring and Assessment of Biodiversity (SI/MAB) Programme in Peru and Gabon.
• Implementing capacity building and policy reform within the Government sector. For example, Shell China, in partnership with Fauna & Flora International (FFI) and the State Environmental Protection Administration (SEPA), are seeking to establish such a programme to incorporate ecological and biodiversity considerations in EIAs in China.

Managing environmental issues for West-East

A particular effort was made by Shell to encourage and obtain credible and independent expert advice, ranging from consultants, research institutes, Government departments and both domestic and international NGOs during preparation of the ESIA and related management plans.

In the area of environmental protection, this has included:

• Consulting widely on biodiversity issues, locally, nationally and internationally, to build on existing information, e.g., Lop Nor management workshop with Wild Camel Protection Foundation, IUCN, SEPA, Xinjiang EPB, local Research Institutes and other interested parties.
• Preparation of a series of environmental / ecological studies and plans specific to each of the Reserves, co-ordinated by Peking University School of Environmental Sciences.
• Overall ecosystem studies and comprehensive soil and water conservation / restoration plan along the whole West-to-East pipeline by the Chinese Academy of Sciences (CAS), with input from various Chinese Research Institutes (e.g., Arid Lands & Desert Research Institute).
• Training of construction contractors and supervision companies in biodiversity awareness and Management Plans.
• Ensuring expert supervision of construction and restoration activities, by engaging, amongst others, the Reserve management themselves.
• Engagement of local experts to provide baseline understanding and practical measures for eco-restoration with appropriate species.
• Establishment of a Land and Ecosystem Restoration Monitoring Project by the Water and Soil Conservation Institute of the Ministry of Water Resources.
• Review of reserve management plans by all partners before any construction in these areas.

The result has been a comprehensive and robust approach to understanding and managing the biodiversity and conservation issues. In addition, local Institutes have reported skills transfer benefit from involvement in international approaches to ESIA.

Specifically, the Chinese Academy of Sciences has been engaged by PetroChina to further assist the project through definition of a ‘Green Action Plan’ to cover environmental management for the entire pipeline route. It includes a series of sub-plans to cover the next 8-10 years of the project. Among others, these sub-plans include:
• Eco-protection;
• Landscape and ecosystem restoration;
• Water and soil erosion monitoring;
• Pollution control and monitoring;
• Nature reserve and biodiversity conservation;
• Cultural heritage protection;
• Cleaner production;
• Environmental management and supervision;
• Environmental education;
• International co-operation.

A number of opportunities to further build relationships and forge partnerships with different stakeholder groups in support of sustainable development and conservation activities are envisaged through implementation of this Plan.

**Social impact and UNDP partnership**

Within the context of developing partnerships to support major project developments, the approach to the Social Impact Assessment on the West-East Project is also worthy of consideration.

It had been agreed with PetroChina that Shell conduct a Social Impact Assessment along the pipeline route. Managing an engagement exercise along 4,000 kilometres of the route was a major challenge for a commercial company such as Shell, legally not connected to the project and faced with legislation restricting foreign companies in sponsoring surveys.

Given the complexities involved, Shell initiated a ‘first of its kind’ partnership in China with the United Nations Development Programme (UNDP) and the China International Centre for Economic and Technology Exchange (CICETE) to conduct the social impact survey. UNDP, with its unique status in the country, its well-developed partnerships with national institutions and its experience of conducting similar surveys in China, was well placed to perform the work.

It was the first major social impact assessment survey of its kind for a major infrastructure project in China, engaging 10,000 people along the pipeline route.

This was structured through a Memorandum of Understanding between Shell, UNDP and the China International Centre for Economic and Technology Exchange (CICETE). The work involved five national consulting institutions and an NGO, provincial and county statistics bureaus, the State Statistics Bureau (SSB), and a team of national and international consultants.

The six institutes were:
- Central Statistical Information Consulting Center (CSICC) of the SSB;
- College of Rural Development, China Agricultural University;
- School of Public Policy and Management, Tsinghua University;
- Institute of Environment and Development (IED) and Leadership in Environment and Development (LEAD);
- Academy of Macroeconomics Research, State Development and Planning Commission (SDPC);
- Rural Development Institute, Chinese Academy of Social Sciences (CASS).

It is believed to be the largest survey of its type to have been undertaken in China.

UNDP hopes that the social survey will have a major impact on the way large scale investment projects will be carried out in the future in the country and Shell hopes to continue this partnership by developing programmes to help alleviate some of the issues that were recorded in the survey.

Subsequent private sector approaches to UNDP for similar assessment on other projects, indicates that this innovative approach is setting a model for future projects.

Building on this and in partnership with UNDP and the National Development and Reform Commission (NDRC – formerly SDRC), Shell has commenced a capacity-building programme that aims to do three things:
1. Inform government decision makers of the value (“business case”) for doing SIAs.
2. Introduce modern SIA methods and techniques.
3. Promote effective and progressive dialogue on the subject.

One of the concerns highlighted by the UNDP survey was the need to ensure that appropriate compensation and resettlement practices were being followed. The approach taken was to establish an expert team of staff from within Shell and PetroChina and develop an audit & review programme involving Chinese NGOs (e.g., LEAD), professional institutions (e.g., ECIDI, CASS) and independent consulting companies as third parties in the survey process. All was done entirely with local expertise and considerable effort to build understanding and recognize the complimentary skills of each of the parties.

Social Investment / Sustainable Development fund

Whilst the broad principle of a Social Investment / Sustainable Development fund has been agreed by the various Partners to the project, it cannot be set-up until negotiations are successful and Joint Venture Contracts are in place. Consequently, the details regarding how such a fund will work in practice and funding commitments will not be finalized yet.

Understanding the potential opportunities and environmental and social benefits that could accrue from such an approach has only been made possible because of the ESIA and consultation activities undertaken in the past year. Several opportunities have been identified and considerable interest shown by various donor agencies and NGOs in possible partnership through such a scheme.

Generally, questions that still need to be resolved in setting up and ensuring sustainability of the fund include:

- How much should be invested?
- When and on what basis should funding be made (up-front funding or regular contributions)?
- Should the fund be set up as a trust, foundation or charity (what are the legal issues)?
- How will it be managed/administered and by whom?
- Which organizations should be involved to ensure credibility (e.g., donor agencies, NGOs, Government, local communities)?
- Should the JV partners be closely involved or direct its operation at all?
- What projects should be supported, how will they be identified, ranked and screened?
- Will or should the Government participate (e.g., through contribution of tax revenues)?
- How will appropriate transparency/governance be ensured?
- Is it advisable to leverage external funds from agencies already working in these areas?
- Is there scope to influence Government on the use of tax revenues towards environmental and social development programmes (and how is this done, e.g., via tri-sector partnering)?

Shell is currently trying to reconcile these questions, drawing on experience from others.

Lessons learnt and opportunities

1. **Partnership with JV partner** – A good understanding and rapport developed over time and extensive dialogue is key. Agreeing to overarching common goals helps smooth the discussion over standards.

2. **Standards and objectives** – Make clear to prospective Partners the standards and objectives to which you expect the project to be undertaken. Ensure they are documented and clear, and that meaning and intent are the same in English and local versions of these documents. The level of detail needed depends on the circumstances.
Standards, including wider business principles, need to be included into the contract documents or other formal agreements.

3. **Time to agree** – Don’t underestimate the time this can take. It can be a protracted, time-consuming and difficult process, particularly when justifying the business case beyond ‘regulatory compliance’, and where there are several partners and the government involved (in the case of environmental investment programmes and social and resettlement issues).

4. **Measures of success** – At an early stage in discussion with any stakeholder party to the project, it is important to achieve consensus on what constitutes a successful project and how this will be measured.

5. **Involvement of third parties** – Third parties provide independence and credibility to studies, assessments and plans, both within the host country and international community. Bringing in international experts can be sensitive from perceptions of cost and insensitivity to the local environment. But they also offer huge potential for exchange of expertise and local capacity building amongst business partners, local institutes and NGOs.

6. **Leveraging international expertise** – Use of acknowledged international experts can greatly support efforts of multinational JV partners to influence their national counterparts as to the value and importance of biodiversity and conservation.

7. **Leverage local expertise** – There is a wealth of technical and scientific capability within China which is often overlooked by foreign organizations. Furthermore, the administrative mechanisms in government sometimes result in such expertise being overlooked (e.g., through the EIA process). Appointing just one institute can result in lost opportunities with respect to obtaining input from centres of excellence across the range of topics to be addressed. Involvement of local expertise is essential to enable understanding of local complexities.

8. **Encourage broad consultation** – Engaging in dialogue with a broad set of stakeholders and encouraging public participation is standard practice for many foreign companies, but it must be recognized that this approach is new and sometimes uncomfortable for many Chinese partners. Expectations should be managed accordingly.

9. **Audit** – Establish and take part in an audit process to provide assurance that required standards/project expectations are being met.

10. **Explore breadth of participation** – In addition to supporting technical and scientific expertise, consider possible opportunities not immediately apparent, e.g., for private sector companies to impart management, administration and finance skills to Reserve management staff.

**Conclusion**

All companies investing or operating in China have the potential to make an important contribution to sustainable development and conservation, through partnership with their JV partners, Government entities, NGOs and the public.

Protected areas in China face increasing pressures from development, local communities and lack of funding. Whilst the private sector cannot solve all of these problems, we do see some significant opportunities where the corporate sector might support innovative, responsible approaches to environmental and social management in partnership with others.
A rigorous approach to conducting ESIAs, ensuring stakeholder consultation, and leveraging use of both international and local expertise is essential to define environmental protection needs, identify conservation opportunities and develop social programmes.

On the West-East Pipeline project, the specialist skills of several organizations have been utilized directly in support of conducting ESIAs, specialist studies, preparing management plans and monitoring. Broader activities aimed at offsetting impacts have been identified and principles for establishing a Social Investment / Sustainable Development fund agreed. The latter cannot, however, be progressed until such time as negotiations for the project are successful and Joint Venture contracts signed.