

## Following the Money Behind the Dairi Prima Mineral Zinc and Lead Mine in North Sumatra, Indonesia

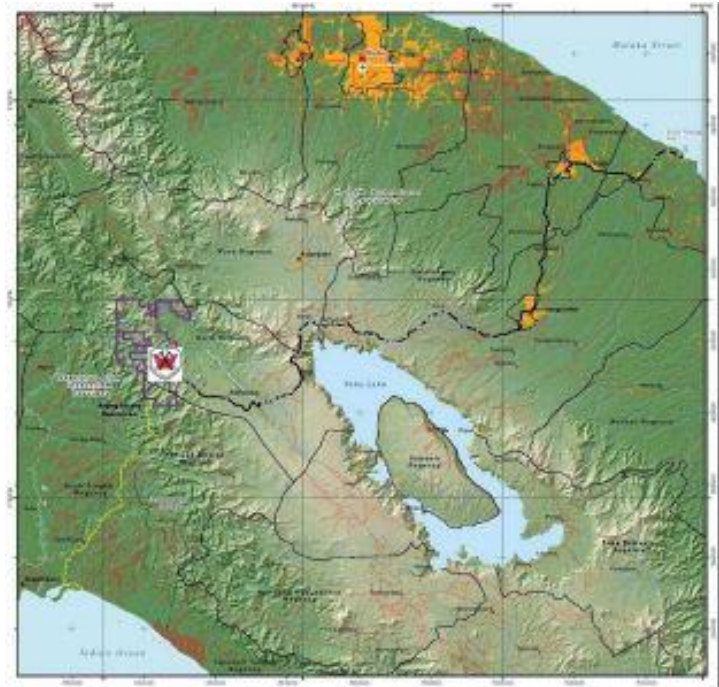
July 10, 2020

---

### 1) Dairi Prima Mineral and its Expected Impacts

**PT. Dairi Prima Mineral** is an Indonesian mining company. It is developing a zinc, lead and silver mine in a mountainous area of North Sumatra province. Zinc will be the focus of the mine. The concession area contains approximately 5% of the world's zinc reserves.

The project dates to 1998, when Dairi Prima Mineral received permission from the Indonesian government to explore for metals in a 27,420-hectare area.



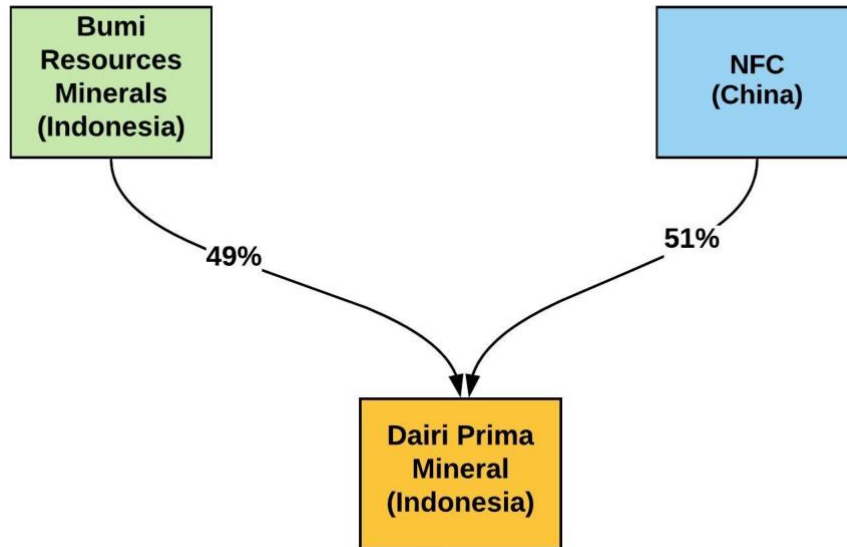
Dairi Prima Mineral proposes to use underground mining techniques to extract ore and bring it to the surface. Ore will be concentrated at a facility to be constructed adjacent to the mine. Concentrated ore would be shipped to China, where it would be refined and used in a variety of consumer and industrial goods, especially cars, airplanes and construction materials. Dairi Prima Mineral claims that most of the waste from the mine will be mixed with cement and injected back underground. The remaining waste will be stored in a tailing dam that Dairi Prima Minerals says will be located close to the mine.

### 2) Who owns the mine?

Dairi Prima Mineral is jointly owned by two companies:

- **Majority owner, with 51%: China Nonferrous Metal Industry's Foreign Engineering and Construction Co., Ltd (NFC)**

- **Minority owner, with 49%: Bumi Resources Minerals**

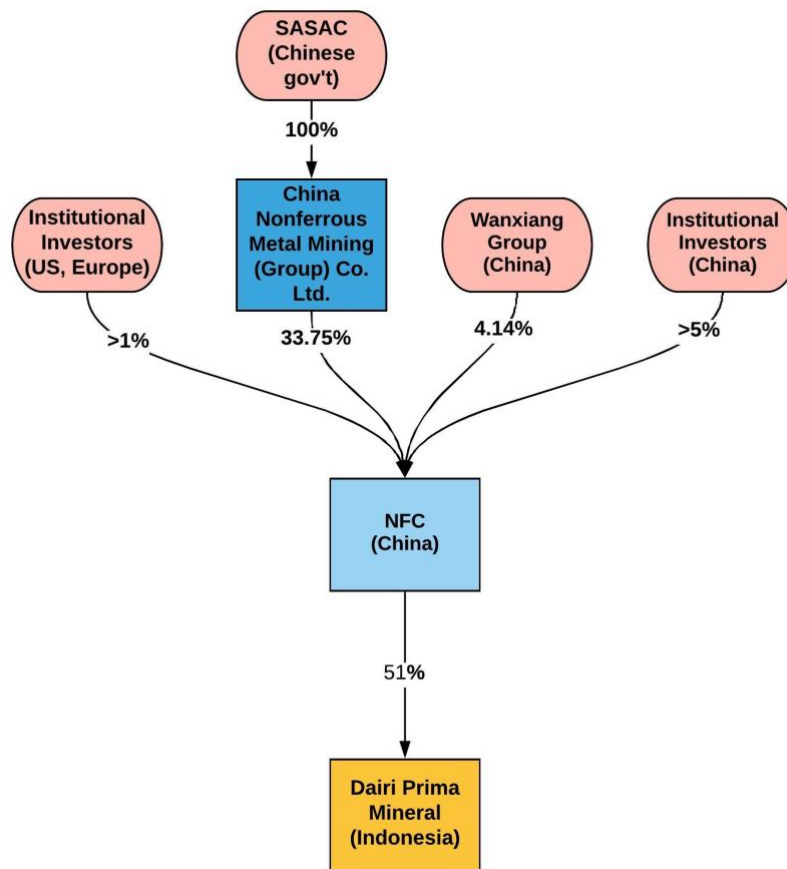


### **NFC (51% owner)**

NFC is a Chinese mining company. Ownership stakes in the company are traded on the Shenzhen Stock Exchange. NFC is part of the **China Nonferrous Metal Mining (Group)**, which is fully owned by the **Chinese government**. NFC first became involved in the Dairi Prima Mineral project in 2014, when it was selected as the contractor to design and build the mine. NFC also signed an agreement to buy and distribute most of the metal. In October 2018, NFC became an owner in the mine when it bought a 51% stake.

### **NFC's Key Shareholders**

1	China Nonferrous Metal Mining (Group) Co., Ltd., a large Chinese government-owned metals enterprise	33.75%
2	Wanxiang Resources Co. Ltd., the commodities trading arm of the Wanxiang Group, the world's largest auto parts maker	4.14%
3	Sino Mining International Investment Co.	3.11%
4	Central Huijin Asset Management Co., Ltd., a Chinese state-owned investment firm	2.65%
5	China National Social Security Fund – 4 <sup>th</sup> branch	0.68%
6	Changjiang Securities Co., Ltd., a Chinese investment firm	0.67%
7	Agricultural Bank of China Index Fund	0.65%



The International Finance Corporation (IFC), which is part of the World Bank Group, is indirectly backing Dairi Prima Mineral through its equity investment in a large Chinese commercial bank. After becoming an IFC client, Postal Savings Bank of China provided a number of general corporate loans to NFC, which it could use for any of its business operations, including Dairi Prima Mineral.

The relationship with Postal Savings Bank of China opened the door for local communities to file a complaint with the IFC's accountability mechanism, the [Compliance Advisor Ombudsman](#) (CAO). In March 2020, the CAO found the communities' complaint eligible and has begun an assessment of whether the case is suitable for dispute resolution between the parties. If not, the complaint will be transferred to the CAO's Compliance function to conduct an investigation into whether the IFC has adhered to its Sustainability Policy and Environmental and Social Procedures in its investment in Postal Savings Bank of China. This is the first complaint involving a Chinese financial intermediary accepted by the CAO.

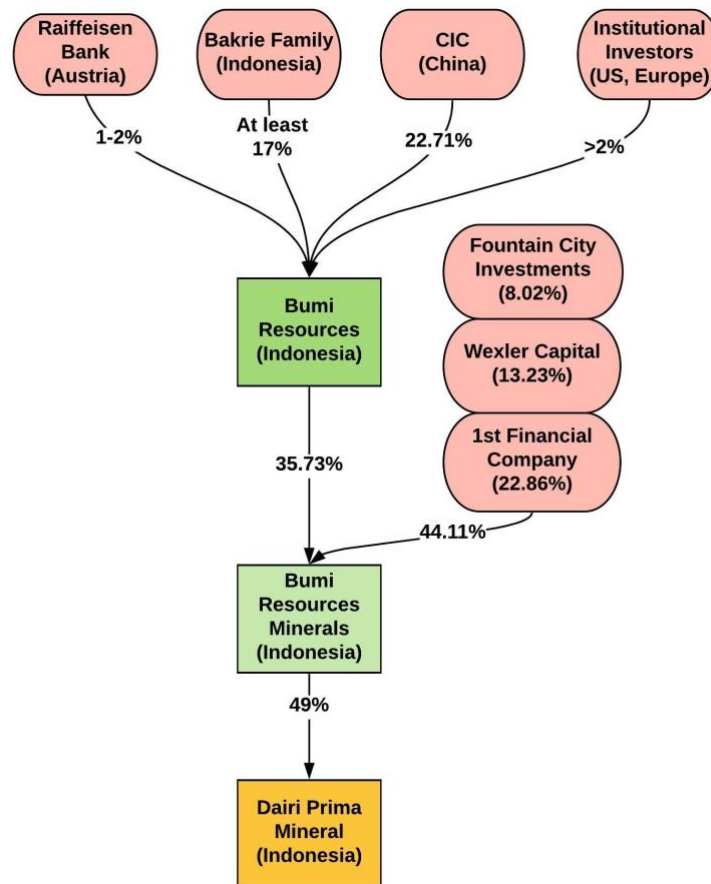
### **Bumi Resources Minerals (49% owner)**

Bumi Resources Minerals is an Indonesian mining company. Ownership stakes are traded on the Jakarta and Frankfurt stock exchanges. Bumi Resources Minerals is the non-coal subsidiary of the Indonesian mining giant **Bumi**

**Resources**, one of the world’s largest coal producers. Bumi Resources is the main business of the **Bakrie family**, a powerful and politically connected Indonesian family.

Bumi Resources Minerals’ Key Shareholders

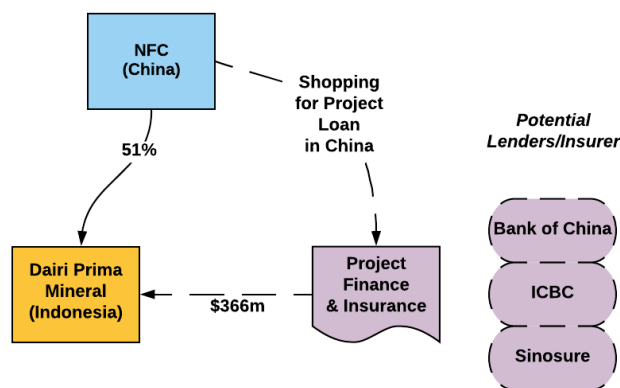
1	Bumi Resources, Indonesian coal mining company	35.73%
2	1st Financial Company: Seychelles-registered former creditor of Bumi Resources Minerals	22.86%
3	Biofuel Indo Sumatra	10.7%
4	Wexler Capital Pte.: Singapore-registered former creditor of Bumi Resources Minerals	9.79%
5	Fountain City Investment, former creditor of Bumi Resources Minerals	8.02%



**3) Extra debt/loan financing**

Dairi Prima Mineral has said it will raise 80% of the mine’s cost, approximately \$366 million, through loans from banks. Getting this money from banks and obtaining insurance are key steps the project must go through before mining can begin. Without bank loans, the project cannot move ahead.

NFC has said it will approach banks in China for this money. We do not know for sure which banks NFC will approach (or has already approached). However, two large commercial banks and one insurer are likely candidates to be involved in the project loan: **Bank of China**, the **Industrial and Commercial Bank of China (ICBC)** and **Sinosure**. They are often mentioned in company press releases and other important announcements regarding the mine’s progress. Representatives from all three have attended Dairi Prima Mineral events. And all three are big backers of Chinese-developed projects around the world. They have offices in Indonesia and have financed large infrastructure and resource projects in the country.



### **Industrial & Commercial Bank of China (ICBC)**

ICBC is the world’s largest bank. It is majority-owned by the Chinese government. Some Western investors hold small ownership stakes. ICBC publishes an annual corporate social responsibility report, but it has not published its environmental and social policies or management systems for its investments. Nonetheless, ICBC has been responsive to public concern over controversial projects in the past. For example, in 2017, ICBC decided not to finance a controversial coal mine in Australia called Carmichael.

### **Bank of China**

Bank of China is one of the country’s largest commercial banks, with operations around the world. Majority-owned by the Chinese government, the bank has some Western investors that hold small ownership stakes.

Bank of China publishes annual corporate social responsibility reports. Few of the bank's environmental and social policies have been made public, and it has not signed on to any international best practice initiatives or principles. However, Bank of China's Hong Kong branch, which is involved in financing projects overseas, has published an [Environmental Policy](#), which states:

“Bank of China Hong Kong is committed to environmental sustainability. This means minimizing our environmental impact by reducing our carbon footprint, using resources more efficiently and effectively and promoting environmentally responsible business practices, services and products. By adopting this environmental policy, we reinforce our vision of becoming the premier bank of choice with sustainability at the heart of our long-term competitiveness. We regard the financial services sector as an important contributor towards sustainable development. As a leading banking group in Hong Kong with a long history, we are committed to making a positive difference to the communities we serve.”

Bank of China has engaged civil society over concerns in at least one recent case in Indonesia. The bank agreed to loan money to the controversial Batang Toru dam, which is located near the Dairi Prima Mineral concession in Sumatra. Campaigners warned that Batang Toru could wipe out an endangered orangutan species and harm local communities. After civil society raised concerns, Bank of China publicly pledged to “evaluate the project very carefully and make prudent decisions,” before moving forward. A recent report stated the bank pulled its financing, but this claim has not been corroborated.

### **Chinese government guidelines**

Like all Chinese banks, ICBC and Bank of China are subject to the China Banking and Insurance Regulatory Commission's **Green Credit Guidelines**. These guidelines aim to improve bank environmental and social performance and make clear that banks have responsibility for the way that projects are implemented on the ground. Under the Green Credit Guidelines, banks are responsible for identifying, assessing and managing social and environmental impacts associated with projects that they finance, including overseas.

The Green Credit Guidelines do not have an enforcement mechanism, but it can be helpful to refer to the guidelines in communications with the banks that may be approached to finance this project. For more information, please see IDI's [Safeguarding People and the Environment in Chinese Investments](#).

### **Sinosure**

The China Export & Credit Insurance Corporation (Sinosure) is the Chinese government's insurance provider. It is by far the largest insurer of Chinese-

developed and -financed overseas projects. Insurance is a critical part of developing a large project, and banks are unlikely to get involved in a project without insurance coverage.

Sinosure is a financial policy institution and helps implement the Chinese government's foreign policy, sometimes by backing projects that are politically important but commercially risky. However, there are recent signs that Sinosure is paying greater attention to commercial considerations. After paying out \$1 billion on a failed railway expansion in Ethiopia, the chief economist of Sinosure publicly criticized the project, saying that due diligence on such overseas deals had become "downright inadequate."

Sinosure has not disclosed environmental and social policies or management systems for its coverage. Like all insurers, it is in the business of assessing risk, so it is likely to look closely at the risks associated with Dairi Prima Mineral before offering coverage.

Although Sinosure is not well understood by outside observers, recent research suggests that it acts as a "gatekeeper" for Chinese finance. In particular, Bank of China and ICBC appear to be required to secure Sinosure approval as part of their due diligence processes. If Sinosure is not willing to back Dairi Prima Mineral because it is deemed to be too risky, Chinese banks may be unlikely to get involved.

#### **4) Where does the zinc go after it is mined?**

NFC will be the primary "off-taker," or purchaser and distributor, of the zinc ore mined in Indonesia. It is likely to ship the zinc from Sumatra to China, where it operates refineries. After it is refined, NFC will sell it to other companies for use in cars, airplanes, construction material and technology.

NFC currently sells zinc to a company called **Wanxiang Group**, the world's largest manufacturer of auto parts. (A Wanxiang Group company, Wanxiang Resources, is also a shareholder of NFC.) One in three cars on the road globally contains parts manufactured by the Wanxiang Group. Its customers include **Volkswagen, Ford, Citroen, Mazda, General Motors, Suzuki, Fiat, Toyota**, and **Daimler Chrysler**. If the Dairi Prima Mineral becomes operational, at least some of the zinc it mines is likely to end up in cars produced by these companies.

Many of these car companies are consumer brands that have made environmental and social commitments for their supply chains.

NFC also sells some zinc on the **London Metals Exchange**, where companies can buy and sell zinc. The London Metals Exchange has announced a plan to ensure that all metals traded on the exchange are responsibly sourced by 2022.



Stages of Zinc Processing

