

Rogue Traders

A Report on Morgan Stanley's Financing of Socially and Environmentally Controversial Projects in Asia

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Introduction

March 19, 2002

To Morgan Stanley Shareholders:

Morgan Stanley is earning a public reputation as a financier of very controversial projects.

This report describes some of the contentious projects which the company has helped underwrite and finance. These activities include:

- aiding construction of the world's most destructive dam, by raising capital for the China Development Bank, whose top debtor is Three Gorges Dam;
- supporting China's political repression and cultural genocide by underwriting socially and environmentally harmful resource extraction in Tibet;
- financing Asia Pulp & Paper and its unsustainable logging of Indonesian forests which threatens indigenous peoples and endangered species.

Continued involvement in such projects not only poses a reputational risk, it also calls into question management's ability to effectively assess risks in emerging markets, posing a serious threat to shareholder value.

We hope you will raise these concerns with Morgan Stanley management and call on the firm to implement policies that would preclude financing and underwriting such risky projects in the future.

Sincerely,

International Rivers Network

www.irn.org

Students for a Free Tibet

www.tibet.org/sft

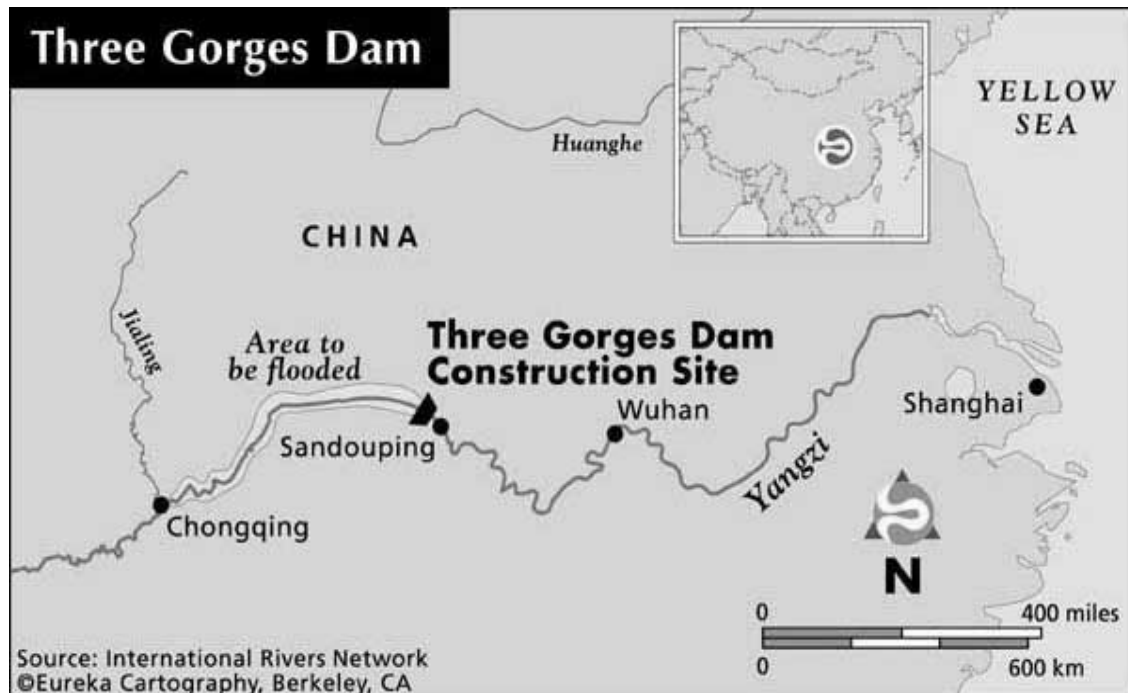
Free Tibet Campaign

www.freetibet.org

Friends of the Earth, UK

www.foe.co.uk

Morgan Stanley and Three Gorges Dam, Yangtze River, China



"If you complain, the authorities will do this," he says, cocking his thumb and forefinger to imitate a pistol. "Or this," he adds, turning his back and squeezing his fists together to simulate handcuffs. "It's no use. The local officials just don't care about us."

-Resident from area to be submerged by Three Gorges Dam reservoir, quoted in *Far Eastern Economic Review*, April 1999.

The Three Gorges Dam will set many records- its 350-mile-long reservoir will be the longest in the world and will evict more people than any other infrastructure project in history. Close to 2 million people will have their homes, land, livelihoods and places of worship destroyed and submerged by reservoir waters. For many in China, the dam symbolizes the hubris of an authoritarian regime that has attempted to silence any criticism of the \$24.5 billion project. Many serious concerns raised by critics within China and abroad before construction began in 1994 have come to pass: spiraling costs, technological problems, and major resettlement conflicts.

Both the World Bank (historically the single largest funder of dams in developing countries) and the US Export-Import Bank have refrained from financing Three Gorges Dam.

Project developers tried to sell Three Gorges specific bonds in the mid-1990s but found that the project was too controversial for the international capital markets. Developers then started relying on financial intermediaries such as China Development Bank (CDB) to issue general obligation bonds. Upon first appearance, the bonds were not linked to the dam, but closer examination of the CDB prospectus shows Three Gorges Dam is the CDB's top loan commitment.

China International Capital Corporation (CICC), managed and 35% owned by Morgan Stanley, serves as the Three Gorges Project Corporation's advisor on raising overseas capital (*Financial Times*, August 6, 1998).

In a January 29, 2001 *Wall Street Journal* article, Morgan Stanley representatives denied supplying money directly to Three Gorges Dam but did confirm underwriting bonds for the CDB and being 35% owner of CICC.

Repeated public inquiries requesting information about the accounting and reporting measures used to insure that bond proceeds are not supporting the dam have been ignored by Morgan Stanley management. We assume that no such accounting measures exist.

Approximately 65% of the Three Gorges Dam construction costs are financed by the CDB. A \$1 billion general obligation bond offering at the end of 1998 for the People's Republic of China reportedly funneled \$200 million to the dam.

Other financial institutions involved in underwriting CDB bonds have been more cooperative in discussions with environmental groups. Some financial institutions have made public commitments to sustainability including the UNEP Finance Initiative to sustainable development. Morgan Stanley representatives, however, did not respond to concerns of environmental and social risks around Three Gorges Dam in a forthcoming manner.

As a result, International Rivers Network pulled out of discussions with Morgan Stanley representatives and waged a boycott of the company's consumer services including the company's Discover Credit Card.

Social Conflict and Human Rights Abuses

In 1998, a report by Chinese sociologist Wu Ming revealed widespread mismanagement in the project resettlement program. Corruption and embezzlement of resettlement funds, inadequate relocation plans, insufficient compensation, and systematic discrimination against rural residents in distributing compensation were among the problems listed. The program was so poorly planned that one official quoted in the report said the government "will have to rely on the military or a man-made flood to force people out of their homes."

Over the past four years, residents across areas slated for submergence have been organizing themselves into unofficial associations to protect their interests. The associations have sent numerous petitions to Beijing protesting corruption by local resettlement officials and inadequate compensation for resettlement. None of the grievances have been addressed by the government.

Reports in 2001 from the area detailed how four representatives were violently attacked and jailed in an attempt to travel to Beijing to deliver petitions detailing resettlement grievances.

He Kechang, Ran Chongxin, Jiang Qingshan, and Wen Dingchun, have been detained "incommunicado" since March 2001. He Kechang,

a retired 77-year old resident of Gaoyang county, was reportedly tortured while in detention, and the others are also believed to be in danger.

Amnesty International has urged the four men be released and demanded that they have access to their families, doctors, and lawyers of their choosing. On March 26, 2001, International Rivers Network sent a letter to Morgan Stanley CEO, Phil Purcell, and again called on the firm to refrain from financing any future bonds for the China Development Bank, as long as there was no mechanism to insure that bond proceeds would not reach Three Gorges Dam.

Morgan Stanley's support for the Three Gorges Dam, makes the firm complicit in these human rights abuses.



He Kechang & Wen Dingchun with petitions detailing resettlement grievances (South China Morning Post, September 29, 2000)

Morgan Stanley's Financial Involvement in Three Gorges Dam & Intermediaries

- Co-lead and manager of \$330 million in bonds for State Development Bank of China (now China Development Bank)
- Co-lead and manager of \$500 million in bonds for CDB
- Lead Manager and Bookrunner in May 2001 for \$500 million bond issue for the People's Republic of China. The bond prospectus details Three Gorges Dam Project as a national priority.

Possible Support

Morgan Stanley is reported as a main contender for underwriting the overseas listing for Three Gorges Project Development Corporation on the London Stock Exchange. (March 12, 2002, *Financial Times*).

Public requests and petitions sent to Morgan Stanley asking the company to refrain from underwriting future CDB bonds have been ignored (see appendix).

An international boycott of Morgan Stanley's brokerage and consumer services demands the firm halt involvement with Three Gorges Dam and its intermediaries.

Recommendations for Morgan Stanley

The Company should implement environmental and social policies, such as the WCD recommendations and guidelines, that would govern core business operations, including underwriting. These policies should preclude the firm from financing projects such as Three Gorges Dam. Future underwriting transactions would ensure a robust accounting for use of proceeds and disclosure of the environmental and social impacts of such transactions.

Review of Three Gorges Dam Against WCD Recommendations and Guidelines

Gaining Public Acceptance

The WCD recommends stakeholders take part in "negotiated agreements for compensation, mitigation, resettlement, development, and monitoring measures affecting them, including draft contracts, where necessary." It goes on, "A clear agreement with the affected people on the sequence and stages of resettlement will be required before construction on any project preparatory work begins... The negotiated agreements need to be translated into signed contracts between the developer and affected communities and individuals, with clear targets for assessing compliance."

The Reality: No such agreements exist and those who are being forced to move have had no input into the process and no contractual agreements with the resettlement authorities. In February 1999, 10,000 affected residents filed petitions with the Chinese central government, detailing extensive problems, including rampant corruption, extortion, falsification of data and inadequate compensation.

Corruption

"Corrupt practices are pre-empted through enforcement of legislation, voluntary integrity pacts, debarment and other instruments. All States need to adopt and implement common and consistent anti-corruption legislation..."

The Reality: A government audit earlier this year revealed resettlement officials have embezzled about \$57.7 million in Three Gorges resettlement funds nearly 12 percent of the total \$478.8 million allotted by the government for relocating the project oustees. Embezzled money was used to speculate on stocks and real estate and was transferred to personal accounts.

Use of Coercion and Violence

"The WCD recognizes that coercion and violence have been used against communities affected by dams. All project proponents public and private need to commit to the strict prohibition of such acts of intimidation against any stakeholders."

The Reality: Outspoken critics of the project have been arrested or forced into exile, differences of opinion are treated as evidence of counter-revolutionary intent. The well-known Chinese dissident journalist Dai Qing was jailed for 10 months after she published a collection of critical essays on the dam in 1989. Four villagers from Gaoyang County have been in prison since March 2001 on charges of "disturbing Three Gorges resettlement" for attempting to deliver petitions protesting corruption of resettlement funds and inadequate compensation.

The complete WCD recommendations are online at www.unep-dams.org

Morgan Stanley & Resource Extraction in Tibet: Undermining Tibet's Future



Tibetan monks are arrested and forced onto trucks by Chinese military during the uprising in Lhasa in the late 1980s. Photo: Tibet Images

In 1950, Chinese troops invaded the independent nation of Tibet. Fearing for his life, the young Dalai Lama, spiritual and temporal leader of Tibet, fled in 1959 into exile to Dharamsala, India. Hundreds of thousands of Tibetans have since followed him.

Under the Chinese occupation, an estimated 1.2 million people have died following imprisonment, deprivation, torture, and execution. Over 6,000 nunneries and monasteries have been destroyed. For over half a century now, Tibetans and their supporters have continued the non-violent struggle for Tibetan freedom.

China's "Go West Campaign" is an attempt to court foreign investment for projects and infrastructure to facilitate resource extraction in western areas. By driving foreign investment in petroleum and mining projects, the Chinese government solidifies its grip on its restive western regions, including Tibet.

In addition to the direct financing Morgan Stanley provides to resource-extraction projects in Tibet, it is very likely that international capital raised by

Morgan Stanley in general obligation bonds for the People's Republic of China finances destructive and politically risky development projects in Chinese-occupied Tibet.

OIL AND GAS EXTRACTION

PetroChina has constructed a pipeline from the Tsidam Basin in Amdo (Chinese: Qinghai) to Lanzhou, to extract Tibet's oil and gas resources for use in mainland China. Local Tibetans have no say in the project despite the significant environmental degradation it will cause. The project plans did not include a program to distribute benefits to local Tibetans. Recently 50,000 worker demonstration in support of an independent union at a PetroChina plant was put down by PLA tanks and paramilitary forces.

Morgan Stanley's Involvement in PetroChina

In April 2000, Morgan Stanley's joint venture, China International Capital Corporation, helped underwrite \$2.89 billion for the PetroChina IPO on the New York Stock Exchange.

In May 2001, Morgan Stanley was a lead manager for a \$500 million bond issue for the People's

Republic of China. The bond prospectus lists PetroChina as a state energy priority.

In the US, a campaign was launched against the PetroChina IPO by Students for a Free Tibet, human rights advocacy groups, national security institutions, and labor unions. Subsequently, the IPO dropped from an estimated total of \$10 billion to an actual capital raise of \$2.89 billion.

MINING AND SMELTING

Chalco is China's largest aluminum company. Its main primary-aluminum processing plant is in Amdo (Chinese: Qinghai), the Tibetan province where the Dalai Lama was born, near the city of Ziling (Chinese: Xining).

The Amdo plant releases toxic smoke laden with fluorides which falls back to the ground, poisoning livestock that are herded by villagers. Chalco's IPO prospectus admits the Amdo plant has exceeded airborne emission limits.

Livestock graze on contaminated grass become afflicted with fluorosis; their teeth become brittle, fall out and the animals die of starvation. This loss exacerbates the gaping economic disparity between Tibetans and Han Chinese settlers. Already, the majority of skilled jobs in Tibet go to Chinese settlers who are given economic incentives by the government to move there.

Affected Tibetans cannot voice their concerns to the government, as they could be persecuted for appearing to be Tibetan "separatists."

In December 2001, Morgan Stanley underwrote the initial public offering for Chalco. Morgan Stanley helped raise \$450 million from American investors.

From December 1-7, 2001, over 3,000 faxes calling on the company to refrain from underwriting Chalco were sent to Morgan Stanley's headquarters in New York. No response was given. On December 7, 2001, the Tibetan Government in Exile sent Morgan Stanley CEO Phil Purcell a letter raising concerns over the company's underwriting of Chalco. The Government has not received a response from Morgan Stanley.

RAILWAY

"Some people advised me not to go ahead with this project because it is not commercially viable. I said, this is a political decision, we will make this

project succeed at all costs, even if there is a commercial loss." China's President, Jiang Zemin, on the Gormo (Golmud) to Lhasa Railway Project (*The New York Times*, August 9, 2001)

The three most pressing concerns raised by Tibetans and their supporters regarding the "Gormo-Lhasa Railway" (also referred to as the Golmud-Lhasa and Qinghai-Tibet Railway) are the threat of environmental degradation to Tibet's fragile high-altitude ecosystem, the expected influx of Han Chinese settlers, and the facilitation of increased militarization of Tibet.

The Chinese government's primary and official motivation for building the railway, is to "consolidate national defense and unity of nationalities," (*People's Daily*, Nov. 12, 2000).

Last fall, Philip Purcell met with officials from the Chinese Ministry of Railways (*China Daily*, October 16, 2001). This news caused deep concern among Tibetans and their supporters.

In December, 2001, the government of the People's Republic of China confirmed that proceeds from state bonds were to be used in four areas - one of which is the Gormo-Lhasa railway. (*Financial Times Asia Africa Intelligence Wire*, December 19, 2001).

In May 2001, Morgan Stanley helped underwrite close to \$500 million in general obligation bonds for the People's Republic of China. The prospectus for the bonds emphasizes China's priorities for transportation development "especially the rail lines between Qinghai and Tibet."

Morgan Stanley's disregard for this policy means complicity in the Chinese government's attempts to consolidate its brutal occupation of Tibet.

Recommendations for Morgan Stanley

Students for a Free Tibet and Free Tibet Campaign urge Morgan Stanley to stop underwriting bonds and projects that do not comply with the Tibetan Government-in-Exile's Guidelines for International Development and Sustainable Investment, and to confirm that the company will have no involvement in the Railway.

TIBETAN GOVERNMENT-IN-EXILE:

Guidelines for International Development and Sustainable Investment

Guidelines compiled by the Tibetan Government-in-Exile aim to foster sustainable development in Tibet and to enhance the capacity of the Tibetan people to fully participate in the development of their land and to control the use of their natural resources. The Guidelines seek to encourage active international engagement that will improve the Tibetan people's quality of life and to address the existing imbalances in the development of Tibet.

Through responsible development and investment, the international community has the ability to make a major, positive impact on the lives of the Tibetan people. Throughout Tibet today, resources for promoting local businesses, education, and healthcare are extremely limited.

The priority of the Tibetan Government-in-Exile is for the Tibetan people to be able to achieve their full economic and cultural potential. His Holiness the Dalai Lama has sought to enter into negotiations with the Chinese government in order to achieve a settlement, which would grant Tibetans genuine autonomy within the framework of the People's Republic of China.

As a political solution to Tibet is being pursued, international aid and development agencies, as well as investors, can and should be involved in raising the standard of living for the Tibetan people and in assisting Tibetans to become self-sufficient.

Basic Principles

- To enhance the capabilities of Tibetans to meet the needs of the present generation without compromising the needs of the future.
- To transform the whole of Tibet into a zone of peace with a democratic society.
- To create a future economic system based on a non-violent and equitable society.
- To restore and conserve Tibet's extensive, fragile resource base and the environment.
- To reverse the process of marginalisation of Tibetans in Tibet and empower Tibetans to take control of developing Tibet.
- To support not only the economic well-being of Tibetans, but also their social, cultural, spiritual and environmental welfare.

Aid and Investment Guidelines

- All development projects should be implemented only after conducting a thorough need-assessment of the Tibetan people through field visits and interviews.
- All development initiatives should be preceded by cultural, social and environmental impact assessments.
- Development projects should foster self-sufficiency and self-reliance of Tibetans.
- Projects should promote accountability of the development agencies to the Tibetan people and active participation of Tibetans in all project stages.
- Projects should respect Tibetan culture, traditions and the vast Tibetan knowledge and wisdom about their landscape and survival techniques.
- Agencies should have a local presence at all stages of the project to ensure that the intended target group benefits.
- Tibetan should be used as the working language of projects. It will be important for the development project staff to know the Tibetan language.

The complete set of Development Guidelines is online at www.tibet.com/aidTibet.html

Morgan Stanley and Asia Pulp & Paper: Plundering Indonesia's Forests



Forest devastation in an APP plantation. Photo: FOE/UK

The Indonesian pulp and paper business was one of the most popular investment targets in Asia for the international financial community during the 1990s. More than \$15 billion of international investment has brought Indonesian pulp and paper companies into the major league of global timber producers.

There has been a sharp reversal of fortune for Indonesia's paper tiger economy with the financial collapse of Asia Pulp & Paper (APP), Indonesia's biggest pulp and paper producer. With debts of \$13.4 billion, APP announced a standstill on all debt repayments on March 12, 2001. This was followed on April 4, 2001 with a decision by the New York Stock Exchange to suspend all trading in APP's shares. They had crashed by 98.4% in only one year, falling from \$7.50 to \$0.12.

This financial collapse can be related to the unsustainable and damaging practices of APP. Within Indonesia, massive growth in pulp and paper capacity, fueled by international investment, has not been matched by efforts to gain a sustainable supply of raw materials. As a

result, of the 100 million m³ of wood estimated to have been consumed by the pulp industry between 1988 and 1999, only 8% was harvested from plantations. The remaining 92% has mostly been sourced by clear cutting rainforest.

Morgan Stanley was responsible for helping APP and its subsidiaries raise \$2 billion, perhaps the largest financial support of any U.S. investment firm.

The Indonesian pulp and paper industry has destroyed 835,000 hectares of highly biodiverse rainforest.

Forest Destruction

Indah Kiat, one of Indonesia's largest pulp mills and part of the APP Group, accounts for 77% of APP's pulp production capacity and 40% of Indonesia's overall pulp output. In 2000, Indah Kiat sourced approximately 75% of its logs from clear cutting natural forests and their operations have accounted for 187,000 hectares of deforestation over the last 10 years. APP has

plans to destroy a further 290,000 hectares of rainforest over the next 10 years.

Illegal Logging

Financial institutions such as Morgan Stanley queued up to invest in the Indonesian pulp and paper companies because they perceived that they had a competitive advantage due to their access to cheap raw material resources. The low cost of timber supplies was made possible because the companies were given access to natural forests by the Indonesian Government at virtually no cost because plantation resources had not been adequately developed. In some cases, it appears that they have been able to buy substantial volumes of illegal timber.

It is estimated that between 1995 and 1999, Indonesian pulp producers obtained as much as 20 million m³ of timber from undocumented sources. Indonesian pulp producers have obtained as much as 40% of the wood they consumed during this period from illegal sources.

Distorted Global Paper Market

Morgan Stanley has failed to appreciate that by offering paper products at such low cost, undercutting most of their competitors, APP may have distorted the global paper market, contributing to falling global paper prices.

Ironically, APP's supposed competitive advantage may have significantly contributed towards its mounting debt problems and consequently its tumbling share value.

Social Conflict

Morgan Stanley has not adequately recognized the high level of social conflict that APP has generated as a result of its operations. Indah Kiat came into conflict with the indigenous Sakai people after they cleared 300 hectares of their forest land. This conflict came to a head on February 3, 2001 following the blockade of a logging road by the Sakai.

According to various reports, employees of an APP linked company were involved in serious clashes with the villagers of Betun village, Pangkalankuas sub district in Riau. According to those reports, at least five villagers were injured in the clashes, two seriously and 52 people were detained by APP security forces before being handed over to the local police.

APP is also involved in a controversial joint venture plantation project, Borneo Pulp & Paper (BPP) in Sarawak, Malaysia. BPP has been at the centre of major opposition from indigenous groups. The project has been given access by the Malaysian Government to more than 300,000 hectares of land. As a result, up to 20,000 Iban indigenous people may be forced off their land.

One Iban community has already won a landmark court case against BPP. The Court ruled that part of the land that had been handed over to the company for the plantation was the community's native customary land. The Court declared that the land title issued to BPP, which included the disputed area, was void.

More than 20 other Iban communities are bringing on legal actions against BPP.

Morgan Stanley's Financial Involvement in APP & Subsidiaries

Shares

- \$3 million shares in APP
- \$6 million shares in Indah Kiat
- Lead manager of APP IPO in April 1995 at the New York Stock Exchange – total amount raised was \$310.5 million
- Lead manager of APP share offering in November 1997 - \$207 million raised.

Bonds

- Participated in bond issue in March 1991 for \$75 million for APP subsidiary Tjiwi Kimia
- Participated in March 1992 in a \$40 million convertible bond issue for Tjiwi Kimia
- In October 1993 arranged a \$175 million bond issue for Indah Kiat
- In September 1995 arranged a \$550 million bond issue for APP
- In March 2000, arranged a \$403 million bond issue for APP China
- Owner of an undisclosed number of bonds.

Additional Financing

In August 1999 Morgan Stanley was an advisor to APP to sell its 51% stake in three co-generation facilities at three of the company's major Chinese plants for about \$197 million to a joint venture of Singapore Power and Sinar Mas Group.

Summary of Morgan Stanley financial involvement

- Morgan Stanley owns \$9 million shares in APP & subsidiaries
- Morgan Stanley has been involved in helping arrange approximately \$2 billion in financing for APP & its subsidiaries.

Morgan Stanley must recognize that their massive financing of APP has directly contributed to catastrophic rainforest destruction and conflict with indigenous peoples.

Morgan Stanley should have realised that arranging financing for a company that destroys a large part of the second richest forest habitat in the world carries a significant degree of reputational risk. By ignoring environmental and

social risks, Morgan Stanley has also incurred serious financial risk.

Recommendations for Morgan Stanley

- As part of APP's debt restructuring negotiations, the company should use its financial influence to help ensure APP reduces its capacity, no longer destroys rainforest and respects the rights of local communities.
- The company should adopt and fully implement a Forests Policy which ensures that no financial activities lead to the destruction of High Conservation Value Forest and that the rights of local communities are respected.

Appendix: Letters Sent to Morgan Stanley



March 26, 2001

Philip J. Purcell
Chief Executive Officer
Morgan Stanley & Co. Inc.
1585 Broadway, 40th Floor
New York, NY 10036

IGNORED!

Dear Mr. Purcell,

In light of recent evidence of human rights abuses at Three Gorges Dam, we are writing once more to urge Morgan Stanley to commit to no future bond underwriting or financial support for China Development Bank, a major financier of Three Gorges Dam. According to recent reports (see enclosed articles) five people have been detained by police for organizing petitions on Three Gorges resettlement problems. Articles 19 and 21 of the United Nations Human Rights Declaration list the freedoms of expression and peaceful association as inherent inalienable human rights. The reports clearly demonstrate how project authorities suppress freedom of expression and association of those involved in the resettlement process.

The China Development Bank (CDB) lists the Three Gorges Project Development Corporation as its top loan commitment. China International Capital Corporation (CICC) has, since 1995, been the financial advisor to the Three Gorges Project Development Corporation on overseas capital raising. Since Morgan Stanley is a 35% holder in CICC, and since Morgan Stanley was a participating underwriter of \$830 million in CDB bonds in 1997 and 1999, we call on Morgan Stanley to refrain from being involved in purchasing and underwriting CDB bonds while funding from those bonds are leading to construction of Three Gorges Dam. We also recommend that Morgan Stanley communicate to Chinese authorities and to CDB representatives that it will not assist in fundraising for Three Gorges Dam.

In February 2001, Bloomberg News reported CDB's plans to auction 185 billion yuan (22 billion USD) denominated bonds. Most recently, on March 12, 2001, CDB announced the auction of 12 billion yuan in bonds. Given the concern of CICC's financial advising on capital raising for Three Gorges Dam, has either CICC or Morgan Stanley been involved in purchasing CDB bonds? While US investment banks cannot buy RMB denominated bonds, please clarify whether Morgan Stanley, through its joint venture China International Capital Corporation, has been able to buy such bonds.

We ask you to commit to no future direct or indirect financing for Three Gorges and China Development Bank, immediately. Thank you for your attention to this matter, and we look forward to your reply.

Sincerely,

A handwritten signature in black ink, appearing to read 'Doris Shen', is written over a faint, larger signature.

Doris Shen
Three Gorges Campaign

Linking Human Rights and Environmental Protection

1847 Berkeley Way Berkeley, CA 94703 USA (510) 848-1155 (510) 848-1008 fax

www.irn.org





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THE OFFICE OF TIBET

241 EAST 32ND STREET, NEW YORK, NY 10016

December 7, 2001

Philip J. Purcell
Chief Executive Officer
Morgan Stanley
1585 Broadway, Floor 39
New York City, NY 10036

IGNORED!

Dear Mr. Purcell:

The Central Tibetan Administration is deeply concerned about your brokering of Chalco's initial public offering on the New York Stock Exchange on December 11, 2001. Chalco's operations in Tibet will negatively impact the Tibetan ecosystem as well as the Tibetan people. We, therefore, urge Morgan Stanley to postpone the offering until the potential damage to Tibet and the Tibetan people has been closely examined, evaluated and conclusively found to be nonexistent.

The Central Tibetan Administration's position with respect to development and investment in Tibet is clear: it supports projects that benefit the Tibetan people and opposes those that cause harm to them. We have put forward a set of Guidelines for International Development Projects and Sustainable Investment in Tibet to assist potential investors, corporations and donor agencies interested in working in Tibet to determine which projects should be encouraged and which ones should be discouraged and opposed. The main goal of the Guidelines is to foster sustainable development in the Tibetan Plateau that will enhance the ability of the Tibetan people to fully participate in the development of their land and to control their natural resources.

Thus, projects that empower Tibetans, improve their education, provide appropriate employment for Tibetans, protect the natural environment, promote Tibetan culture, national identity and language besides improving the living conditions of Tibetans can be useful. On the other hand, projects that facilitate the transfer of Chinese into Tibetan areas, employ sizeable numbers of Chinese, deplete natural resources in Tibet, transfer ownership of land to non-Tibetans, facilitate erosion of Tibetan culture and identity, and perpetrate the economic marginalization of Tibetans in Tibetan areas are clearly harmful and should be stopped. Clearly, under the present circumstances not all development projects in Tibet are in the best interest of Tibetans. Hence, we urge all foreign corporations and investors involved in economic development projects in Tibet to examine their activities carefully in light of these Guidelines. Projects that adversely effect Tibetan society and environment must be immediately stopped and redesigned or cancelled.

Our worries about your financial support for Chalco concern that company's operations in Amdo, a province in eastern Tibet. Chalco's primary aluminum smelting facility is the Qinghai Smelting Plant,



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THE OFFICE OF TIBET

241 EAST 32ND STREET, NEW YORK, NY 10016

located near Ziling (Chinese: Xining). The Central Tibetan Administration is foremost concerned that Chalco's operations in Amdo will result in the following:

- Pollute the areas surrounding the Qinghai plant through emission of fluoride laden gases, which poison the vegetation and local animal herds (see below)
- Facilitate the transfer of Chinese settlers and workers to Tibetan areas and employ only a few Tibetans in unskilled labor position.
- Contribute to the need for more hydroelectric energy, possibly bringing about the construction of further dams that will cause riverbed erosion and the forceful resettlement of entire communities
- Transfer of the land on which the Haixing smelting facility is being built to Chinese state-owned land (see below).

Chalco's preliminary prospectus discloses that the environmental review conducted by Worley Chemicals & Minerals Pty Ltd found that "airborne emission limits set by the Chinese regulatory authorities (...) have been exceeded at Qinghai." (Pg. B17) The Central Tibetan Administration urges you to ensure that Chalco release the entire analysis and report compiled by Worley Chemicals & Minerals Pty Ltd to the public and to us, so that we may learn in greater detail what Chalco's impact on Tibet's environmental integrity will be. The summary report mentions that social impacts of Chalco's facilities were reviewed (Pg. B17) and the results of this review should also be released and examined to ensure that Tibetans will not be harmed by Chalco's operations in Tibet.

The prospectus also states that "The Haixing facility occupied collectively-owned land in respect of which application has been made to the relevant land administrative authorities for conversion of the land into state-owned land before it can be either granted to us or leased to us from such authorities" (Pg. 128). The Central Tibetan Administration is concerned that the land will be transferred from Tibetan ownership to Chinese state-ownership, which would violate the Guidelines we have set forth for development projects.

Please know that Tibetans will actively oppose any project that furthers the destruction of the Tibetan environment and the disenfranchisement of the Tibetan people.

Sincerely,

Samdhong Rinpoche

Chairman of the Cabinet