



PLATFORM
7 Horselydown Lane
London SE1 2LN

Tom McKillop
The Royal Bank of Scotland Group plc
Gogarburn
PO Box 1000
Edinburgh EH12 1HQ

Monday, 29 October 2007

Dear Tom McKillop

Burma Campaign UK, BankTrack and PLATFORM would like to warn the Royal Bank of Scotland that its assets could be supporting the Burmese junta and that its profits could be in part derived from oil & gas operations in Burma.

The RBS controls 8.25% of Bank of China, a key backer of Chinese oil companies which help prop up the military regime in Burma. Petrochina and Sinopec have been criticised heavily for co-operating closely with the Burmese military, whose rule relies on oil & gas income.

Only this September, Sinopec began drilling an onshore well in a joint venture with the Burmese regime's Myanmar Oil & Gas Enterprise. The launch ceremony on September 26 coincided with the first day of the dictatorship's brutal crackdown on civil dissent and was attended by military officials and Sinopec executives.

Please see the annex for further background.

We would appreciate answers to the following questions:

- Given that RBS's strategic partnership with Bank of China covers the issues of corporate governance and risk management, has RBS raised investments into Burma with Bank of China as either a "governance" or a "risk" issue?
- How is the Royal Bank of Scotland ensuring that its stake in the Bank of China is not supporting oil & gas operations, and thus the military regime, in Burma?
- How is the Royal Bank of Scotland ensuring that none of its profits derive from loan repayments to Bank of China covering operations in Burma?

- Does the Royal Bank of Scotland recognize that it holds a level of responsibility for the human rights impacts of its holdings, investments & loans?

Currently, it appears that the RBS could be supporting or profiting from the Burmese dictatorship, through its stake in Bank of China. Unless RBS takes public steps to immediately change the Bank of China's lending practices and ensures that it is no way supporting ongoing repression and human rights abuses in Burma, we are of the opinion that RBS should sell its stake.

Yours sincerely,

Mark Farmaner, Acting Director, Burma Campaign UK

Johan Frijns, Co-ordinator, BankTrack

Mika Minio-Paluello, Campaigner, PLATFORM

ANNEX

RBS's relationship with Bank of China

- According to RBS' 2007 Annual Report, it controls 8.25% (down from 10%) of the Bank of China and owns around 4.5% outright.ⁱ
- According to its "Strategic Partnership" announcement of 18 August 2005, the two banks will establish close co-operation in certain key operational areas, including corporate governance, risk management, financial management, human resources and information technology."ⁱⁱ
- RBS nominates a director (currently Fred Goodwin) to sit on the board of the Bank of China.ⁱⁱⁱ

Bank of China's support for Sinopec and CNPC/Petrochina (since the RBS bought in to Bank of China)

- Both Sinopec and CNPC/Petrochina named Bank of China as their principal banker in their annual report.^{iv}
- In November 2005 Sinopec Overseas Oil & Gas, a subsidiary of Sinopec, secured a \$1.1 billion five year loan from an international banking syndicate arranged by six banks including Bank of China. The Bank of China itself provided \$139 million.^v
- Through its wholly-owned unit BOCI Securities Ltd, Bank of China will be one of three underwriters for CNY20 billion (\$2.7 billion) of bonds for a Sinopec engineering unit this November.^{vi}

Sinopec & CNPC/Petrochina's involvement in Burma

CNPC (& subsidiary PetroChina)

- In August 2007, the Burmese military confirmed the sale of the natural gas from the Shwe gas fields off the Arakan coast to PetroChina.^{vii}
- CNPC signed MOUs in 2006 and 2007 with the Burmese government-owned Myanmar Oil & Gas Enterprise (MOGE) for five offshore blocks off the coast of Arakan State.
- CNPC has been active in Arakan State, as well as in varying levels of planning and exploration in the Bagan, Tuyintaung RSF2, Gwegyo-Ngashandaung RSF3, Tetma IOR3, and IOR4 Blocks.
- CNPC has also signed an MOU with MOGE for a detailed assessment of the potential construction of a crude oil terminal off the coast of Arakan State.^{viii}

Sinopec

- In 2007 signed an over US\$ 1 billion contract for the construction of an Arakan-Yunnan oil pipeline.

- In addition to the Arakan blocks, Sinopec has conducted exploration onshore in Block D in Sagaing and Magwe Divisions.^{ix}

Sinopec & CNPC/Petrochina

- In addition to fossil fuel exploration, CNPC and Sinopec have spearheaded parallel oil and gas pipelines, which would stretch for 2,380 km from Burma's Arakan coast to China's southwestern cities of Kunming and/or Chongqing. The project was set to begin construction in 2007.^x

What's wrong with Oil & Gas operations in Burma?

Oil & gas ventures in Burma have been repeatedly condemned by human rights organisations as propping up the regime. Human Rights Watch stated in October that^{xi}

- Sales of natural gas, such as those to Petrochina, account for the single largest source of revenue to the military government.
- Outside investment in Burma's oil and gas industry has thrown a lifeline to the country's brutal rulers. These funds flow directly to the government and provide the junta with a major source of financing that is completely independent of its citizens.
- There is no transparency in Burma about how much the government receives in oil and gas payments, nor clarity about how the funds are spent.
- Allowing foreign investment in oil and gas is apparently aimed at bringing in more revenue to keep the government afloat at a time when economic mismanagement and profligate spending on the military and the building of a new capital at Nay Pyi Taw have drained government finances.

ⁱ RBS 2006 Annual Report and Accounts

www.investors.rbs.com/downloads/Annual_Report_and_Accounts_2006.pdf

ⁱⁱ

http://rbs.client.shareholder.com/investor_relations/announcements/ReleaseDetail.cfm?ReleaseID=171099

ⁱⁱⁱ RBS 2006 Annual Report and Accounts

www.investors.rbs.com/downloads/Annual_Report_and_Accounts_2006.pdf

^{iv} Annual Report 2005, Sinopec, Beijing, April 2006

Annual Report 2005, PetroChina, Beijing, March 2006

^v "Asia Pacific Syndicated Loans", Euroweek – Issue 931, London, 25 Nov 2005

Sinopec allocated, IFR Asia - Issue No 430, Hong Kong, 21 November 2005;

^{vi} "China's Sinopec unit to sell \$2.7 bln in bonds next month", Marketwatch 27.09.2007

www.marketwatch.com/news/story/chinas-sinopec-unit-sell-27/story.aspx?guid=%7B838E25F5-7C7C-4601-8180-4266A1874AD6%7D&dist=TQP_Mod_mktwN

^{vii} "Myanmar selects PetroChina for gas sale" Reuters 15.08.2007

<http://www.indoburmanews.net/archives-1/2007/august/myanmar-selects-petrochina-for-gas-sale>

^{viii} www.earthrights.org/files/Reports/BACKGROUNDER%20China%20in%20Burma.pdf

^{ix} www.earthrights.org/files/Reports/BACKGROUNDER%20China%20in%20Burma.pdf

^x www.earthrights.org/files/Reports/BACKGROUNDER%20China%20in%20Burma.pdf

^{xi} hrw.org/english/docs/2007/10/01/burma16995.htm