



global witness

# RUBBER BARONS

## How Vietnamese companies and international financiers are driving a land grabbing crisis in Cambodia and Laos

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### Executive Summary

Cambodia and Laos are in the grip of a land grabbing crisis, driven by Vietnamese 'rubber barons'. This report reveals how two of Vietnam's largest companies, Hoang Anh Gia Lai (HAGL) and the Vietnam Rubber Group (VRG), have leased vast tracts of land for plantations in Laos and Cambodia, with disastrous consequences for local communities and the environment. Close ties to corrupt political and business elites provide them with impunity, deals are cloaked in secrecy and they are bankrolled by international finance such as Deutsche Bank and the International Finance Corporation (IFC).

The huge pressure for land to plant rubber is driven by high prices and soaring international demand, especially from China. As the third-largest producer of rubber globally, Vietnam is a key global player, and HAGL and VRG dominate its domestic production. With limits on the land available at home, both companies have turned to neighbouring Cambodia and Laos.

The governments in Cambodia and Laos are allocating large areas of land and ignoring laws designed to protect human rights and the environment. By the end of 2012, 2.6 million hectares of land in Cambodia had been leased, 1.2 million of this for rubber. Twenty percent of this land has been allocated to just five of Cambodia's most powerful tycoons – simply the latest example of how the country's valuable natural resources have been captured by an elite growing spectacularly rich while one third of the population lives on less than US\$0.61 a day. Meanwhile, in Laos, at least 1.1 million hectares has been given to land concessionaires in a process marked by lack of consultation and forced evictions.

The negative impact of VRG and HAGL's activities is hard to overstate. Often, the first people know about either company being given their land is when the bulldozers arrive. Families affected are impoverished, face food and water shortages and get little or no compensation. Indigenous minority peoples' spirit forests and burial grounds have been destroyed. When they resist, communities face violence, arrest and detention, often at the hands of armed security forces who are on the investors' payroll.

Both companies are involved in clear-felling intact forest within and beyond their concession boundaries, contrary to provisions in law. HAGL is alleged to have contracted a powerful Cambodian tycoon to clear and process timber from its concessions. Member companies of VRG appear to have high-level connections with Cambodian government officials and have partnered with a notorious illegal logging syndicate.

Corporate secrecy has been a critical factor enabling HAGL and VRG to hide their beneficial ownership of rubber holdings, which has apparently allowed them to exceed Cambodia's legal threshold on concession holdings by five and sixteen times respectively.

Government officials in Cambodia and Laos are a key part of this problem. They have licensed concessions in contravention of their own laws and have failed to take action when HAGL and VRG openly ignore these same laws. Nevertheless, this in no way vindicates HAGL or VRG for failing to take responsibility for their illegal activities, and both companies must urgently be held accountable.

*Rubber Barons* is the first exposé of the role of international financiers in these land grabs. Deutsche Bank has multi-million dollar holdings in both companies, while the IFC – the financing arm of the World Bank - invests in HAGL. These investments contrast starkly with both institutions' public commitments to ethical and sustainable practices, as well as the World Bank's core mandate to end poverty.

This report also highlights the dearth of international regulations to prevent companies and financiers fuelling land grabbing in the world's poorest countries. The following action is urgently required:

- The governments of Cambodia and Laos should cancel the concessions of the following companies: Heng Brother, CRD, Hoang Anh Oyadav, Hoang Anh Mang Yang, Krong Buk, Dong Phu, Dong Nai, Tan Bien, Hoang Anh Attapeu Company, LVFG, HAGL Xekong and Viet-Lao Company;
- Both governments should suspend all other VRG and HAGL – related operations, fully investigate the companies' operations and initiate prosecutions where illegal activities are found;
- Both governments should also halt illegal logging operations associated with these concessions and prosecute all those involved;
- Deutsche Bank and the IFC should take urgent steps to ensure that HAGL and VRG comply with the financial institutions' legal and corporate environmental and social requirements. Both financial institutions should divest from HAGL and VRG if the companies have not fully undertaken such reforms within six months;
- The IFC must undertake a wider review of its lending to financial intermediaries and develop a strategy to improve the transparency and accountability of such investments;
- All governments must create and enforce internationally applicable regulations to tackle land grabbing. G8 leaders should make a time-bound pledge at their June 2013 summit to regulate the overseas land-based investment activities of companies registered within their own countries. Governments around the world should implement the Voluntary Guidelines on the Responsible Governance of Tenure, including their incorporation into a set of legally binding standards of conduct for companies investing in land.

## Key Conclusions

1. The new rubber barons – Hoang Anh Gia Lai and the Vietnam Rubber Group – are devastating local livelihoods and the environment in their rush for rubber:
  - Local villages impacted by rubber concessions owned by or affiliated with these companies have lost vast tracts of land and forests. As a result, households are facing impoverishment, while spirit forests and burial grounds have been destroyed;
  - Indigenous ethnic minorities have disproportionately borne the brunt of these impacts, despite their rights to land and resources given special protection under international law;
  - These companies, or groups affiliated with them, are responsible for illegal clearance of intact forest – including rosewood and other protected species – both within and beyond their concession boundaries;
  - Employment opportunities on HAGL and VRG plantations are often limited. Where they do exist, working conditions are poor.
2. Hoang Anh Gia Lai and the Vietnam Rubber Group have systematically ignored the law:
  - Hoang Anh Gia Lai and companies affiliated with it appear to have been allocated a total of 81,919 hectares of land. Of this, 47,370 hectares are in Cambodia, which has a legal limit of only 10,000 hectares per company;
  - The Vietnam Rubber Group and companies affiliated with it appear to have been allocated a total of 200,237 hectares of land, of which 161,344 hectares are in Cambodia. This suggests that VRG and its affiliates' collective holdings are over sixteen times the legal size limit;
  - The ability of both companies to exceed the legal threshold for concession holdings in Cambodia appears to be as a result of hiding their beneficial ownership behind complex layers of shell companies;

- Both companies have cultivated connections with senior members of Cambodia's political elite and have hired members of the armed security forces to guard their concessions;
  - Both companies have openly ignored legal environmental and social safeguards, so far with impunity. Hoang Anh Gia Lai publicly admit that their operations in both countries are not in line with the law;
  - Global Witness presented the evidence in this report to HAGL and VRG in August 2012, requesting that they, at a minimum, bring their operations in line with national law, initiate a dispute resolution process with affected communities and publicly disclose key documents. Neither company appears to have taken any of these actions since then.
3. The International Finance Corporation and Deutsche Bank are financing the operations of Hoang Anh Gia Lai and the Vietnam Rubber Group, in violation of their own social and environmental commitments:
- The International Finance Corporation currently invests US\$14.95 million in a Vietnamese fund which holds nearly five percent equity in Hoang Anh Gia Lai;
  - Deutsche Bank has a number of institutional relationships with Hoang Anh Gia Lai, including holding 3.4 million of its shares, worth approximately US\$4.5 million. The Bank also holds 1.2 million shares in Vietnam Rubber Group member company Dong Phu, currently worth US\$3.3 million;
  - Neither the International Finance Corporation nor Deutsche Bank undertook adequate due diligence on HAGL and VRG and, as a result, have failed to uphold their own environmental and social commitments.
4. The evidence presented in this report fits with a wider pattern of failures of governance and human rights abuses occurring in Cambodia and Laos:
- By the end of 2012, the Cambodian government had leased 2.6 million hectares as concessions. This is equivalent to 73% of the country's arable land and has affected 400,000 people in twelve provinces alone;
  - The Lao government has allocated at least 1.1 million hectares as concessions, equivalent to five percent of the national territory. This has impacted on an estimated 13% of all villages nationwide;
  - In both countries land concessions have been allocated within national parks and are recognised as the main driver of deforestation;
  - Affected communities and civil society groups who speak out against these concessions face increasing threats and human rights violations perpetrated by the companies and government authorities. When people have attempted to get their land and forests back, they have been threatened, detained and even shot at by security forces on the payroll of concessionaires.
5. There is a stark absence of binding international frameworks which can tackle the land grabbing and illegal operations of companies such as Hoang Anh Gia Lai and the Vietnam Rubber Group. Such frameworks are urgently needed to prevent abuses in countries like Cambodia and Laos, where their governments fail to implement laws designed to protect ordinary citizens.

*When asked, HAGL confirmed holding rubber plantations totalling 46,752 hectares in Cambodia and Laos but denied knowledge of any disputes with local communities or involvement in illegal activities. VRG meanwhile stated the evidence presented to them was not true, but declined to confirm the status or holdings of its rubber operations in either country.*