

▶ CONSUMER

Green giant

Will Wal-Mart persuade its Chinese suppliers to meet higher standards?

>> should have these types of exposures. It was way more than they needed for any development of their Australian iron mines.”

Patrick Chow, who covers the stock for China Everbright Research in Hong Kong, said the losses represent a failure of the company’s risk management system. But he also questioned how these trades were made in the first place: If Chang and Chau didn’t have proper authority to sign these types of contracts, why are these contracts still legally binding?

Adding to the uncertainty, although CITIC Pacific became aware of the forex exposure as early as September 7, it issued a circular on September 16 claiming to be unaware of “any material adverse change in the financial or trading position of the group.” This came six weeks before the firm revealed that the potential losses might lead it into legal jeopardy, Webb said.

It will be some time before the full extent of the scandal is known. In the meantime, CITIC Pacific legacy may be a decrease in over-the-counter forex trades by companies, which are usually conducted between two parties without the benefit of transparent pricing, according to Lam.

“Corporate hedging on an exchange may see an increase from this because people want to benefit from good transparency and the best price, they know, is the same for all participants,” he said. ♦



MUCH TO EXPLAIN: Larry Yung, Chairman of CITIC Pacific

It’s a tall order, even for a company that sources US\$9 billion worth of goods a year from China. Wal-Mart – the world’s largest retailer – has told its suppliers in the world’s most populous country that they must dramatically improve their environmental and labor practices, or be shown the exit.

Skeptics raise two big questions: Is this just a PR stunt and, if not, can even a giant like Wal-Mart enforce rules across China’s vast hinterland?

Thaddaeus Mueller, a business development manager at Fiducia Management Consultants, which advises Western companies with sourcing and manufacturing interests in China, is optimistic about Wal-Mart’s plan.

“It’s a strong statement from such a large buyer and this will have ramifications for suppliers,” said Mueller. “Also, smaller buyers might follow the example and adopt more rigid standards. I see it as something positive for the quality level of ‘made in China.’”

For many companies, that “made in China” label has been hurt by problems with product safety and quality, as well as reports of workers being exploited.

Transparency ahead

Starting in January, Wal-Mart’s 20,000 suppliers in China will be audited to see that they comply with environmental and labor laws. The company will require all direct importers and all suppliers of private label and non-branded products to provide the name and location of every factory that makes the products.

By 2012, Wal-Mart wants the top 200 factories it sources from in China to improve energy efficiency by 20%. At that time, it will require all suppliers to source 95% of their goods from factories that receive the highest ratings on environmental and social practices.

“Wal-Mart will reward high-performing suppliers and build deeper relationships with those suppliers who are



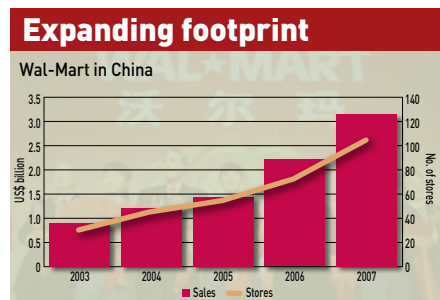
ENVIRONMENTAL AGENDA: By 2010, all of Wal-Mart’s 100-plus outlets in China will have boosted energy and water efficiency

committed to our standards,” said Wal-Mart spokeswoman Mou Mingming.

Announcing the new requirements in Beijing in October, Lee Scott, CEO and president of Wal-Mart Stores, didn’t mince words. “A company that cheats on overtime and on the age of its labor, that dumps its scraps and its chemicals in our rivers... will ultimately cheat on the quality of its products,” he said.

Wal-Mart is asking for higher standards from its own stores as well as its suppliers. By 2010, the 100-plus outlets spread across China will have boosted energy efficiency by 30% and water efficiency by 50%. A year later, it is planned that all energy-intensive appliances on store shelves will use 25% less energy.

Mou, the Wal-Mart spokeswoman, noted that if this were all just a PR move,



Source: China Chain Store & Franchise Association



the company wouldn't have set so many specific goals.

Peggy Liu, chairperson of the Joint US and China Cooperation on Clean Energy (JUCCCE) agrees that Wal-Mart's standards agenda is the real deal. She cites the company as a role model and expects other firms to follow suit and introduce their own programs.

In some cases, notably Wal-Mart's major foreign rival Carrefour – which sourced more than US\$6.3 billion worth of products from China last year – plans are already in place. According to Carrefour spokesman Chen Bo, the company unveiled plans last January to cut energy usage in new stores by 20%.

While such initiatives carry a lot of weight when backed by the likes of Wal-Mart and Carrefour, success ultimately hinges on the people charged with executing them. Alexandra Harney, a journalist and author who has written much on the human and environmental effects of China's industrialization, noted that perfect compliance remains a pipe dream. This is particularly true of China, where the level of product falsification in factories is so sophisticated.

"It will take a long time to erase that culture," Harney said.

However, she accepts that Wal-Mart might be able to bring about change provided its auditing process is strong and incentives are given to factories that perform well on the targeted social and environmental indicators.

Ethics vs. pragmatism

Other industry watchers are more skeptical, claiming that Wal-Mart's pragmatism is likely to outweigh its ethics: If Wal-Mart discovered, just before an order was due to be delivered, that the supplier in question had broken the rules, would it walk away?

While Wal-Mart's Scott didn't address that scenario, he does insist his company is taking a stand.

"Some may wonder, even inside Wal-Mart, with all that is going on in the global economy, should being a socially and environmentally responsible company still be a priority? You're darn right sustainability should be a priority," he said. ♦

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