



OUR RESPONSE ON FORCED LABOUR ALLEGATIONS RELATED TO PHOTOVOLTAIC (PV) PRODUCTION IN XINJIANG

June 2023

1. Photovoltaic industry

- Over the last two decades, the solar photovoltaic industry has experienced a massive boom, with global cumulative installed capacity increasing from 1.2 GWp in 2000 to 714.0 GWp in 2020^[1].
- The sector has been driven by increasing demand and strong competition. China now dominates solar energy supply chains worldwide: eight out of the ten PV panel manufacturers with the highest global market share are based in China. Furthermore, 75% of the world's polysilicon comes from China, with 45% coming from Xinjiang alone^[2].

2. Forced labour allegations within PV supply chains

- Xinjiang is an autonomous region in Northwest China with 25 million inhabitants (45% Uyghurs, 42% Han Chinese, 13% other). The region, which is home to 40% of China's coal reserves, was transformed into an industrial hub beginning in 2016^[3].
- Indigenous Uyghurs and other minorities in the region have been forced to participate in so-called 'surplus-labour' or 'labour-transfer' programmes (approximately 20% of the total Uyghur and Kazakh population have been subjected to these practices)^[4].
- Abusive working conditions have been reported within the detention camps and facilities (political indoctrination, forced Mandarin language classes, bans on religious practice, restricted movement, isolation from family members, 24-hour surveillance, etc.).
- According to Chinese state media, these 'fully voluntary' programmes provide stable employment with the aim of alleviating poverty in the region and providing the 'trainees' with career prospects. Representatives of the Chinese Embassy in Washington claim that forced labour allegations are part of an anti-Chinese smear campaign^[5].
- Many credible reports from independent labour associations, NGOs and research institutions, along with first-hand interviews, have shown that participation is far from voluntary and have confirmed the abusive working conditions described above. The conclusion is evident: these programmes deny citizens the right to freely choose their employment, which is a human right afforded by Article 23 of the U.N. Declaration of Human Rights.
- In 2020, International financial institutions, industry associations, and other market players began taking action.
- On 20 May 2022, two conventions of the International Labour Organization (ILO) – namely the Forced or Compulsory Labour Convention of 1930 and the Abolition of Forced Labour Convention of 1957 – were ratified by the Standing Committee of the National People's Congress in China. This is encouraging, although the investment agreement with China has been postponed on account of the Xinjiang allegations^[6].

- The international community has reacted with a ban by the USA on solar panel materials produced by Hoshine Silicon Industry Co. and others^[7], a bill of sanctions from the Australian and Japanese governments, a statement from the Fair Labour Association barring their members from sourcing any materials from Xinjiang^{[8], [9]}, and a call from the Solar Energy Industries Association to their members to ensure their supply chains are free from forced labour^[10], among other measures.

3. Reaction in the PV industry and the ProCredit group approach

- Given the recent developments and apparent evidence, the ProCredit group, as a social-impact banking group with high environmental and social (E&S) standards, takes these allegations very seriously.
- We have reviewed public statements, reports, and literature; we have contacted local partners such as EPC (Engineering-Procurement-Construction) contractors and distributors; and we maintain close communication with shareholders, including international financial institutions.
- As stated in several reports, compliance with international social responsibility standards cannot be ensured if free access to facilities in the Xinjiang region is not granted to independent auditors to carry out social due diligence and conduct anonymous interviews with workers when they are not being monitored by undercover workers and/or state authorities.
- Declarations issued by the manufacturers themselves and public statements by Chinese state media are, in our view, not sufficient to clear these allegations.
- The ProCredit group sees itself as an important player in the renewable energy sector in its countries of operation. For this reason, we aim to support sustainable growth in these countries while at the same time avoiding any reputational risk for our partners in the market.
- Renewable energy (RE) projects are thoroughly assessed from legal, financial and technical perspectives, as well as in terms of environmental and social aspects. Allegations of this severity would ultimately jeopardise the credibility of our high E&S standards if we were to continue providing financing for PV modules manufactured by the suppliers implicated.
- In our E&S assessment, which is based on the respective standards, we mainly analyse the envisioned project and the current situation of our clients. However, we strive to maintain the same standards for the suppliers chosen by our clients for their projects, insofar as this is possible. This is certainly the case with PV modules.
- Following international developments within the industry, we feel compelled to take action and will therefore exclude the manufacturers in Xinjiang mentioned in the Sheffield Report from any investments we finance until compliance with international social responsibility standards and our Exclusion List can be proven and ensured.
- While such allegations also exist for other materials and products, the situation in this case is different, as there is evidence substantiated by academic research and supported by the action taken on the part of IFIs and validated by the trade sanctions imposed.
- The potential for RE technologies to mitigate climate change and address the energy crisis in many of our countries of operation through the transition to a net zero energy sector is the right way forward, but we cannot endorse green energy at the expense of basic human labour standards.
- In essence, sustainable development for us means remaining within planetary boundaries (in this case, zero-carbon intensity), but also ensuring just and equitable social standards. In the case of the PV modules mentioned, social foundations have clearly been violated.

In summary, our response to these serious allegations is in accordance with the Exclusion List of the ProCredit group – Section 3.1:

“ProCredit banks do not establish any business relationship with clients and do not finance any legal entities engaged in projects or economic activities with unresolved reputational or environmental and social risks such as: Unethical practices and labour conditions, such as activities that involve exploitative forms of labour, and discrimination.”

4. Implications for ProCredit's lending practices

- In order to ensure a "clean" supply chain, we have decided to exclude manufacturers with apparent links to forced labour practices until it is proven otherwise. This exclusion is based on our environmental and social standards as well as our understanding of what responsible banking really is.
- In response to recent developments in the PV industry, including various stakeholders, ProCredit reserves the right to revise the list of PV module manufacturers currently excluded from financing.
- Given the limited access to the Xinjiang region of China, meaning that the verification of compliance with international labour standards via independent audits and inspections is almost impossible, certain requirements for lending had to be drafted to ensure ProCredit's environmental and social standards.
- These requirements are aimed at managing supply chain risks regarding the identification and mitigation of exposure to forced labour within the PV supply chains starting with Tier 1 (PV module manufacturers), as well as ensuring an interconnected risk-assessment approach.
- The following manufacturers are excluded from financing:
 1. JinkoSolar
 2. Risen
 3. Canadian Solar
 4. Astronergy/Chint
- The following manufacturers are part of the recently introduced grey-list and are considered eligible for financing under the grey-list requirements but each case requires an individual assessment:
 5. JA Solar
 6. LONGi Solar
 7. Trina
- Exclusion criteria are regularly reviewed and adjusted to current developments and findings at least twice a year.
- ProCredit actively engages in discussions with its partners in order to raise awareness of and increase support for economically and technically sound alternatives. Contributing to the energy transition by financing photovoltaic projects remains a focus of the ProCredit group – but not at the cost of inhumane labour conditions.

Sources

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