

CONFORMED COPY

GET GRANT AGREEMENT RELATED TO LOAN NUMBER 3716 CHA  
GET GRANT NUMBER TF028693

Global Environment Trust Fund Grant Agreement  
(Sichuan Gas Transmission and Distribution Rehabilitation Project)  
(A Component of Sichuan Gas Development and Conservation Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

acting as Trustee of the Global Environment  
Trust Fund

Dated September 16, 1994

GET GRANT NUMBER TF028693

GLOBAL ENVIRONMENT TRUST FUND GRANT AGREEMENT

AGREEMENT, dated September 16, 1994, between PEOPLE'S REPUBLIC OF CHINA (the Recipient) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT acting as Trustee of grant funds provided by Participants of the Global Environment Facility into the Global Environment Trust Fund (GET) (the Trustee).

WHEREAS (A) the International Bank for Reconstruction and Development (the Bank), pursuant to Resolution No. 91-5 of March 14, 1991 of the Executive Directors of the Bank (the Resolution), established the Global Environment Facility consisting of the GET, Cofinancing Arrangements with the GET and the Ozone Projects Trust Fund, to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

WHEREAS (B) certain members of the Bank (the Participants) have provided resources by way of grant into the GET and the Participants have requested and the Bank has agreed, to administer such grant funds as Trustee, for the purposes of, and in accordance with, provisions of the Resolution;

WHEREAS (C) the Recipient, having satisfied itself as to the feasibility and priority of the Gas Transmission and Distribution Rehabilitation Project described in Schedule 2 to this Agreement, has requested assistance from the resources of the GET in the financing of the Project, and the Trustee has determined that such assistance would be in accordance with the provisions of the Resolution;

WHEREAS (D) the Project is a part of the Sichuan Gas Development and Conservation Project for which the Recipient has also requested the Bank to provide additional financing and by an agreement to be entered into between the Recipient and the Bank, the Bank intends to provide such assistance in an aggregate principal amount equivalent to two hundred and fifty five million dollars (\$255,000,000) (the Loan); and

WHEREAS (E) the Project will be carried out by Sichuan Petroleum Administration (SPA) with the Recipient's assistance and, as part of such assistance, the Recipient will make available to SPA the proceeds of the GET Grant as provided in this Agreement; and

WHEREAS the Trustee has agreed, on the basis, inter alia, of the foregoing, to extend the GET Grant to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. (a) The following provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated January 1, 1985, with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
- (18) and (ii) Sections 2.01 (1), (2), (3), (4), (6), (8), (9), (10), (11), (15), (20), 2.02 and 2.03;
- (iii) Section 3.01;
- (iv) Section 4.01 and the first sentence of Section 4.09;
- (v) Article V;
- 6.04 and 6.06; (vi) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (i) and (k), 6.03,
- (vii) Section 8.01 (b);
- (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
- (ix) Sections 10.01, 10.03 and 10.04;
- (x) Article XI; and
- (xi) Sections 12.03 and 12.04.

(b) The General Conditions shall be modified as follows:

(i) a new paragraph shall be added to the end of Section 2.01 to read as follows: "21. 'Special Drawing Rights' and the symbol 'SDR' mean special drawing rights as valued by the International Monetary Fund in accordance with its Articles of Agreement";

(ii) the term "Bank", wherever used in the General Conditions, other than in Sections 2.01 (8) and 6.02 (f) thereof and the last use of such term in Section 5.01 thereof, means the Trustee

except that in Section 6.02, the term "Bank" shall also include the International Bank for Reconstruction and Development acting in its own capacity;

(iii) the term "Borrower", wherever used in the General Conditions, means the Recipient;

(iv) the term "Loan Agreement", wherever used in the General Conditions, means this Agreement;

(v) the term "Loan" and "loan" wherever used in the General Conditions, means the GET Grant; and

(vi) the term "Loan Account" wherever used in the General Conditions, means the GET Grant Account.

(c) A new sub-paragraph shall be added after sub-paragraph (j) in Section 6.02 of the General Conditions, as follows: "An extraordinary situation shall have arisen in which any further disbursement under the grant would exceed the resources available for disbursement from GET."

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions (as herein modified) and in the Recitals to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Bank Loan Agreement" means the agreement to be entered into between the Recipient and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, as applied to such agreement, and all schedules and agreements supplemental to the Bank Loan Agreement;

(b) "Project Agreement" means the agreement of even date herewith between the Trustee and SPA, as such agreement may be amended from time to time; and such term includes all schedules and agreements supplemental to the Project Agreement;

(c) "SPA" means Sichuan Petroleum Administration, a state-owned enterprise organized and existing, pursuant to its Charter dated May 12, 1993, under the laws of the People's Republic of China;

(d) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(e) "Sub-grant Agreement" means the sub-grant agreement to be entered into between the Recipient and SPA, pursuant to Section 3.01 (b) to this Agreement, as such agreement may be amended from time to time; and such term includes all schedules and agreements supplemental to the Sub-grant Agreement.

## ARTICLE II

### The GET Grant

Section 2.01. The Trustee agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GET Grant in an amount in various currencies equivalent to seven million three hundred thousand Special Drawing Rights (SDR 7,300,000).

Section 2.02. (a) The amount of the GET Grant may be withdrawn from the GET Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Trustee shall so agree, to be made) in respect of the reasonable cost of goods required for carrying out the Project and to be financed out of the proceeds of the GET Grant.

(b) The Recipient shall, for the purposes of the Project, open and maintain in Dollars a special deposit account in a bank, acceptable to the Trustee, on terms and conditions satisfactory to the Trustee, including appropriate protection against set off, seizure or attachment. Deposits into, and payments out of, the Special

Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2001 or such later date as the Trustee shall establish. The Trustee shall promptly notify the Recipient of such later date.

Section 2.04. The Trustee shall not be obligated to make any payments under this Agreement except to the extent it shall have received funds for the purposes of the Project from GET.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall without any limitation or restriction upon any of its other obligations under this Agreement, cause SPA to perform all its obligations set forth in the Project Agreement, shall take or cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable SPA to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Recipient shall make available the proceeds of the GET Grant to SPA under a sub-grant agreement to be entered into between the Recipient and SPA, under terms and conditions satisfactory to the Trustee.

(c) The Recipient shall exercise its rights under the Sub-grant Agreement in such manner as to protect the interests of the Recipient and the Trustee and to accomplish the purposes of the GET Grant, and, except as the Trustee shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Sub-grant Agreement or any provision thereof.

Section 3.02. Except as the Trustee shall otherwise agree, procurement of the goods required for the Project and to be financed out of the proceeds of the GET Grant shall be governed by the provisions of the Schedule to the Project Agreement.

### ARTICLE IV

#### Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the GET Grant Account were made on the basis of statements of expenditure, the Recipient shall:

(i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Trustee has received the audit report for the fiscal year in which the last withdrawal from the GET Grant Account was made; and

(iii) enable the Trustee's representatives to examine such records.

(b) The Recipient shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Trustee;

(ii) furnish to the Trustee as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Trustee shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and

(iii) furnish to the Trustee such other information concerning said records and accounts and the audit thereof as the Trustee shall from time to time reasonably request.

#### ARTICLE V

##### Remedies of the Trustee

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) SPA shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that SPA will be able to perform its obligations under the Project Agreement.

(c) The Charter of SPA shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of SPA to perform any of its obligations under the Project Agreement.

(d) The Recipient or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of SPA or for the suspension of its operations.

(e) The Bank Loan Agreement shall have failed to become effective by November 30, 1994 or such later date as the Trustee may agree; provided, however, that the provisions of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Trustee that adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

(f) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Recipient to withdraw the proceeds of any loan or grant made to the Recipient for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, or

(B) any such loan shall have become due and payable prior to the maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Trustee that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

#### ARTICLE VI

##### Effectiveness; Termination

Section 6.01. For purposes of Section 12.03 of the General Conditions, this Agreement shall become effective upon its execution by the parties.

Section 6.02. This Agreement shall continue in effect until the GET Grant has been fully disbursed and the parties to this Agreement have fulfilled all their obligations hereunder.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministry of Finance  
Sanlihe  
Beijing 100820  
People's Republic of China

Cable address:

FINANMIN  
Beijing

Telex:

22486 MFPRC CN

For the Trustee:

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

197688 (TRT),  
248423 (RCA),  
64145 (WUI) or  
82987 (FTCC)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Washington, D.C. as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Yang Jiechi

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT as Trustee of  
the Global Environment Trust Fund

By /s/ Nicholas Hope

Acting Regional Vice President

## SCHEDULE 1

## Withdrawal of the Proceeds of the GET Grant

1. The table below sets forth the Categories of items to be financed out of the proceeds of the GET Grant, the allocation of the amounts of the GET Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the GET Grant Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Goods under Part A(c)(v)-(viii) of the Project	7,300,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expen- ditures for other items procured locally
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TOTAL 7,300,000		

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Recipient for goods or services supplied from the territory of any country other than that of the Recipient; and

(b) the term "local expenditures" means expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. If the Trustee shall have determined at any time that any payment made from the GET Grant Account was used for any expenditure not consistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Trustee, refund to the Trustee for deposit into the GET Grant Account, an amount equal to the amount so used or the portion thereof as specified by the Trustee.

5. The Trustee may require withdrawals from the GET Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for goods not exceeding \$250,000 equivalent, under such terms and conditions as the Trustee shall specify by notice to the Recipient.

## SCHEDULE 2

## Description of the Project

The objectives of the Project are to assist the Recipient in its efforts to reduce methane emissions, enhance the operational efficiency and safety of gas transmission and distribution in Sichuan, and to strengthen the institutional capabilities of SPA.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Trustee may agree upon from time to time to achieve such objectives:

Part A: Gas Transmission and Distribution Rehabilitation

Rehabilitation of SPA's gas transmission and distribution systems including (a) rehabilitation and upgrading of pipelines, measurement, corrosion control, corrosion inhibition, telecommunication, gas control, gas quality monitoring and emergency response facilities of SPA's entire gas transmission and distribution system; (b) deterioration monitoring and evaluation of the transmission and distribution system; (c) environmental upgrades to reduce methane emissions through: (i) installation of additional valves at the vent stacks of both the gas gathering and transmission systems; (ii) installation of chained caps or plugs on open ended pipelines; (iii) upgrading or replacement of the seals of control valves; (iv) replacement of high performance compressor seals; (v) upgrading of the seals of block valves; (vi) the implementation of comprehensive gas leak detection and repair programs, including repair or replacement of various types of valves (control valves, block valves and pressure relief valves); (vii) plugging of open-ended lines; and (viii) provision of methane-emission monitoring equipment.

Part B: Institutional Building

Institutional strengthening of SPA through technical assistance and training including provision of in-country and overseas training of SPA staff in gas transmission and distribution.

\* \* \*

The Project is expected to be completed by June 30, 2000.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Category" means Category set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods required for the Project and to be financed out of the proceeds of the GET Grant allocated from time to time to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$600,000 to be withdrawn from the GET Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Trustee has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Trustee a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Trustee shall, on behalf of the Recipient, withdraw from the GET Grant Account and deposit in the Special Account such amount or amounts as the Recipient shall have requested.

(b) (i) For replenishment of the Special Account, the Recipient shall furnish to the Trustee requests for deposits into the Special Account at such intervals as the Trustee shall specify.

(ii) Prior to or at the time of each such request, the Recipient shall furnish to the Trustee the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments



in respect of which replenishment is requested. On the basis of each such request, the Trustee shall, on behalf of the Recipient, withdraw from the GET Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Trustee from the GET Grant Account under the respective eligible Category, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Trustee shall reasonably request, furnish to the Trustee such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Trustee shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Trustee shall have determined that all further withdrawals should be made by the Recipient directly from the GET Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the GET Grant allocated to the eligible Category less the amount of any outstanding special commitment entered into by the Trustee pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the GET Grant Account of the remaining unwithdrawn amount of the GET Grant allocated to the eligible Category shall follow such procedures as the Trustee shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Trustee shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Trustee shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Trustee, the Recipient shall, promptly upon notice from the Trustee: (A) provide such additional evidence as the Trustee may request; or (B) deposit into the Special Account (or, if the Trustee shall so request, refund to the Trustee) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Trustee shall otherwise agree, no further deposit by the Trustee into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Trustee shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Trustee, refund to the Trustee such outstanding amount.

(c) The Recipient may, upon notice to the Trustee, refund to the Trustee all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Trustee made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the GET Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

