

## ECAS EXPOSED

*EXPORT CREDIT AGENCIES, EXPLAINS **SIMON RETALLACK**, ARE THE WORLD'S LARGEST PUBLIC FINANCIERS OF ENVIRONMENTAL DESTRUCTION.*

**BY USING TAXPAYERS** 'money to back environmentally-destructive projects around the world, ECAs are lining the pockets of multinational companies at the expense of the planet.

**AS MORE AND** more people join the international campaign against corporate globalisation and its most visible global icon - the World Trade Organisation - they would do well to note that an entity lurks in most of their own countries that is just as destructive. Like the WTO, it pursues a corporate agenda, operates in secret, tramples on people's rights and ravages the environment.

The difference is that it is using billions of public money to do so and is getting away with it. The entity in question is an Export Credit Agency (ECA). Most industrialised countries have at least one ECA, mainly operating as an official branch of government. Their principal function is to promote corporate exports and investments abroad. By providing taxpayer-backed loans, guarantees and insurance, ECAs enable national companies to conquer export markets and secure new investments in developing countries and emerging economies.

Together, ECAs are the world's largest public finance institutions supporting private sector projects, subsidising more than 10 per cent of world trade. The volume of the financial assistance they provide collectively exceeds that of the World Bank and all the other multilateral and bilateral aid agencies put together. In 1997, ECAs approved \$105bn in new loans, guarantees and insurance - a fourfold increase in a decade - half of which went towards large infrastructure projects in developing countries.

Not only do ECAs have far more resources with which to support corporate activity abroad than any other public body, but the majority lack even the most basic standards of publicly acceptable behaviour. Unlike even the World Bank, most ECAs have no public disclosure policy, enabling them to conduct their business in secret and to take decisions on the advice of councils made up entirely of businessmen, many of which are connected with companies that benefit from ECA guarantees.

The majority also have few if any of the detailed social and environmental standards now adopted (though not always enforced) by bilateral aid agencies and multilateral development banks (MDBs). Thus most ECAs do not mandate the carrying out of environmental impact assessments, or the participation of affected groups, or the prohibition of involuntary resettlement and harm to indigenous peoples, wetlands and forests. They lack even the pretence of a public service remit such as the pursuit of 'poverty alleviation' or 'sustainable development'. Such is the nature of most ECAs that many care little even of the economic viability of the activities they sponsor - frequently supporting projects associated with large-scale corruption and mismanagement, according to the NGO Transparency International.

Consequently, the worst type of infrastructure and export projects that multilateral development banks and bilateral aid agencies now reject as environmentally, socially and economically unsustainable are being undertaken all over the world as a direct result of the provision of loans, guarantees and insurance by ECAs using taxpayers' money. In fact, because ECAs are highly competitive with one another in their quest to win new contracts

for their native businesses, they are usually eager to back projects that other MDBs and ECAs have refused on environmental and social grounds. This removes any incentive to apply or raise standards and leads to a race to the bottom as pressure is applied to lower standards that do exist in order to win new business. The most horrific example of this dynamic is the case of the Three Gorges Dam on the Yangtze River in China widely viewed as the world's most environmentally and socially destructive infrastructure project. Touted as the largest-ever hydro-electric dam, it will forcibly displace two million people and inundate precious arable land and archaeological sites. Furthermore, within 50 years scientists expect sediment from the Yangtze to fill much of the dam's reservoir and thereby impair all power production, impede navigation and increase the risk of a catastrophic collapse in a heavy flood. On environmental grounds alone, the World Bank and the US Export-Import Bank refused to support the project, prompting the standard less ECAs of Germany, Switzerland, Japan, Sweden, Canada and France to scramble into the gap to provide hundreds of millions of dollars of loans and guarantees to help their national corporations to build the dam. Two US ECAs, the Export-Import Bank (Ex-Im) and the Overseas Private Investment Co-operation (OPIC), have subsequently faced sustained pressure from US industry and Congress to eliminate those environmental and social standards that prohibited them from helping US companies win contracts for the Three Gorges Dam.

That pressure already seems to have had an impact, as the Ex-IM has joined other ECAs in preliminarily supporting the latest most controversial environmentally destructive infrastructure project with \$850m in export credits and guarantees: the Ilisu hydroelectric dam in Turkey. This dam on the River Tigris will not only forcibly displace over 15,000 principally Kurdish refugees, flood 52 villages and 15 towns, including a legally protected medieval site, but it will also enable Turkey to block flows of the Tigris to Iraq, further enflaming political tension in the region. The project thus violates five policy guidelines of the World Bank and core provisions of a key UN Water Convention. Among the ECAs considering final support for the Ilisu Dam is the UK's Export Credits Guarantee Department, whose minister in charge, Stephen Byers, stated late last year that he was 'minded' to grant a £200m export credit to the British engineering company Balfour Beatty, which is part of the Swiss-based consortium that will build the dam. If the export credit is granted, the British Government will have permanently discredited its so-called 'ethical foreign policy'.

## **NUCLEAR REACTIONS**

Other environmentally catastrophic white elephants that ECAs are keen to help build in developing countries are nuclear power stations, just as the tide has begun to turn decisively against them in the developed world. Thus the UK's ECGD has backed the Daya Bay and Quishan plants in China, and the Canadian ECD is backing the sale of Canadian Candu nuclear reactors to Korea, Romania and China, despite the fact that seven of the Candu models were shut down for safety reasons in Ontario. Even the cogoverning Green Party has not prevented the German ECA Hermes from approving credit guarantees last March for three atomic power stations overseas.

Perhaps even more disturbing is ECA support for other energy-related projects. Just as governments are publicly acknowledging the need to reduce greenhouse gases from fossil-fuel combustion in order to avoid the devastating impacts of climate change, they are allowing their ECAs to finance the construction of coal-fired power plants and oil and gas developments throughout the developing and former-Communist worlds. The British ECGD, for example, is backing the construction of the Liaocheng, Heze II, Shiheng II and Huaneng coal-fired power plants in Shandong and Dalian Provinces, China,

as well as an enormous coal-fired plant in Visakhapatnum, India. Similarly, the massive Paiton coal plant complex in Java, Indonesia, has been backed with \$3.9bn in guarantees and loans from the Japanese, US and German ECAs in deals which the Wall Street Journal reported, in December 1998, were riddled with corruption. The cumulative support for coal, oil and gas projects by the US ECAs Ex-IM and OPIC alone between 1992 and 1998 totalled \$23.2bn. According to the US-based Institute for Policy Studies, these projects will release 29.3bn tonnes of carbon dioxide over their lifetimes - more than all global emissions for 1996. In every instance, renewable energy options are ignored, snagging developing countries on the hook of fossil-fuel dependency as the entire world needs rapidly to extricate itself from it.

The actual construction of ECA-backed fossil-fuel projects - particularly the oil and gas pipelines and roads upon which they depend - also have immediate, devastating impacts for natural habitats and biodiversity. The Urucu Gas and Oil Project, financed with a \$64m loan by the Japanese ECA JEXIM, for example, involves the construction of a processing plant, two 500 km-long pipelines and 15-30 metre-wide construction and service roads along the entire length of the pipelines in the heart of some of the most pristine rainforest of the Brazilian Amazon. Widespread forest destruction is predicted, not least as a result of the access provided to loggers, miners, ranchers and colonists by the project's pipelines and roads into hitherto remote and undisturbed areas.

Forest degradation, oil spills and human rights abuses have already taken place as a result of the construction of the Orensa Pipeline in the rainforests of Colombia for BP and Total with loans and guarantees from JEXIM and the Italian SACE. Large-scale mining is another particularly ecologically destructive activity that ECAs have been keen to promote. The Australian Export Finance and Insurance Corporation (EFIC) and the US Ex-IM have provided loans totalling over \$320m to Australian and US companies working on the OK Tedi mine in Papua New Guinea - the third largest open-cut copper mine in the world. Even worse is the Porgera gold mine in the Enga Province of Papua New Guinea (PNG), backed, once again, by the EFIC with \$120m in loans, whose toxic discharges reach levels that have been measured at up to 3,000 times PNG limits. The only beneficiaries of this whole system are large corporations, for whom ECAs effectively play the role of giant welfare providers, exposing the supposed superior 'efficiency' of 'free' trade in the modern global economy as a hollow sham. It's a clever racket that involves far more than the provision of loans, as significant as that is. To avoid the risks of operating overseas, corporate exporters of goods or services take out insurance with an ECA which guarantees to pay them for the exported goods or the services rendered if the importer defaults or the project fails. When this happens, the ECA initially uses taxpayer money to pay the corporation before passing the bill on to the governments of the importing country which adds it to its stock of foreign debt. The world's poor therefore ultimately pick up the tab, and that tab is increasingly high: a quarter of developing countries' total external debt, and over half of all their official debt, is now owed to ECAs, causing a huge drain on scarce resources.

## **WHAT CAN BE DONE?**

Clearly this scandalous abuse of public funds must be stopped. For over two years, some 140 non-governmental organisations (NGOs) have been campaigning around the world for radical ECA reform. They are calling for greater transparency and public participation, particularly of affected groups, in all ECA decision-making processes. They are also demanding mandatory, independently prepared environmental and social impact assessments, as well as screening procedures that would prohibit support for

environmentally and socially harmful projects, respecting rather than contravening, as is currently the case, international agreements on the protection of the environment and human and social rights.

Finally, based on these principles, they are urging governments to agree common environmental and social standards for all ECAs within two years. While the leaders of the G8 countries have at long last publicly accepted part of the NGO challenge on ECA reform - calling upon the OECD to negotiate common environmental standards for ECAs by June 2001 - progress has been extremely slow and as governments are applying little pressure for real change, there is a serious risk that the OECD talks will break down. That cannot be allowed to happen. Increased public pressure on governments must be applied to overcome lobbying by entrenched private interests. ECAs are among the last bastions of publicly sponsored corporate misrule. It's high time that their gross misuse of public resources was brought to an end for good.

*Simon Retallack is deputy editor of The Ecologist's special issues. This article was based on research by ECA-Watch, The Corner House, Environmental Defence Fund, and Friends of the Earth UK. For more information on ECAs see especially: [www.eca-watch.org](http://www.eca-watch.org)*