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Paris, April 7, 2005

Participants in the Arrangement on Guidelines for Official Export Credits  
c/o OECD Export Credit Secretariat  
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Dear Sirs and Madams:

We are writing to express our deep concern about current proposals being discussed by Participants to the Arrangement on Guidelines for Officially Supported Export Credits.

Under the proposed changes, renewable energy and water projects would benefit from greater repayment flexibility than they currently receive, extending the maximum repayment term to 15 years from 12 years, and raising the financial ceiling for local costs to 30% of the export contract value from 15%.

We believe, for the reasons presented below, it is critical that participants in the Arrangement ensure that large hydropower and other water projects are not eligible for the preferential terms currently being discussed for renewable energy projects.

We welcome the intent of this initiative, namely poverty alleviation, protection of the environment, technology transfer and the encouragement of truly renewable energy sources and sustainable development. However, we believe that the current proposals contain serious flaws. In particular:

- They fail to address the current market distorting preferential treatment given to non-renewable fossil fuel-based and nuclear energy technology exports by Export Credit Agencies (ECAs), which is itself an obstacle to the adoption of renewable energy technologies;
- The inclusion of large dams which generate massive and irreversible social and environmental damages undermines the very purpose of the proposals;
- The proposal to cover not just energy but also water projects, given the lack of acceptance of any development mandate on the part of ECAs, is potentially detrimental to poverty alleviation;
- The local content proposals are insufficiently generous.

**1. Market distorting preferences for fossil fuel-based and nuclear energy**

The Arrangement's preferential treatment for nuclear power and fossil fuel power exports has led to market distortions in favour of environmentally destructive and unsustainable

power production, which constitute a major portion of the ECA portfolio.<sup>1</sup> In fact, the removal of the preferential treatment for fossil fuel based energy is called for under the UN Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol, which requires that governments seek “progressive reduction or phasing out of market imperfections, fiscal incentives, tax and duty exemptions and subsidies in all greenhouse gas emitting sectors that run counter to the objective of the [Climate] Convention.”

**2. The current proposal's inclusion of environmentally and socially high-risk sectors, such as large dams** We are alarmed to see that the definition of projects eligible for preferential financial terms and conditions includes large hydropower projects - and that the proposal does not require such projects to comply with the recommendations of the World Commission on Dams (WCD). We believe that this seriously compromises and undermines the proposal's stated intentions and objectives.

Many hydropower projects have massive and irreversible social and environmental impacts - including the extinction of fish species, the sedimentation of reservoirs, the erosion of riverbanks and coastlines, the submergence of valuable floodplains, and the emission of methane. The climate impact of methane emissions from large dam reservoirs, especially in the tropics, can actually exceed those of natural gas plants generating equivalent amounts of energy. The WCD report notes that large dams have displaced 40-80 million people, and have “led to the impoverishment and suffering of millions”. Most large dam projects have not succeeded in re-establishing the economic livelihoods of the communities that they displaced.

For all these reasons, large hydropower projects should not be considered a renewable source of energy.<sup>2</sup>

We strongly urge that large hydropower projects (>10 megawatts) and those that involve large dams (>15 meters high) be excluded from the preferential treatment of renewable projects in a revised OECD Arrangement. If your negotiations require that such projects must be included, they must be obliged to comply fully with the guidelines of the World Commission on Dams (WCD) if they are to receive preferential terms and conditions.

We note that the European Commission has confirmed in writing, that the EU Proposal “does indeed in an appropriate way include all relevant international standards and, more specifically, the WCD recommendations.” A copy of the Commission's letter of 19 November 2004 is attached. If the Commission's proposal is to be adopted, we believe that compliance with the WCD must be made explicit in order to avoid uncertainty and loose interpretation over which standards should be applied.

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<sup>1</sup> Support for unsustainable non-renewable energy sources by ECAs was highlighted in a recent Greenpeace report showing that Ducre is financing or supporting 20 times the greenhouse gas production through fossil fuel energy projects as Belgium has committed to reducing under the Kyoto Convention between 2008 & 2012.

([http://www.greenpeace.org/belgium\\_fr/multimedia/download/1/722055/0/rapport\\_EN.pdf](http://www.greenpeace.org/belgium_fr/multimedia/download/1/722055/0/rapport_EN.pdf)) Between 1994 and 1999, ECAs supported \$103 billion in fossil fuel power generation, oil and gas development, large transport infrastructure, sales of aircraft, and energy intensive manufacturing in developing countries, according to the World Resources Institute. ECA support for fossil fuel power projects from the United States alone between 1992 and 2002 amounted to some US\$32 billion, which will result in lifetime emissions from these projects of 32 billion tonnes of carbon dioxide. (Institute for Policy Studies, Washington)

<sup>2</sup> For a comprehensive review of why hydropower should not be included in renewable energy initiatives, see the International Rivers Network and other NGO's report “Twelve reasons to exclude large hydro from renewables initiatives” (<http://www.irn.org/programs/greenhouse/12reasons.pdf>).

**3. The proposed extension of preferential terms to other water projects** We have concerns about also extending these terms to drinking water infrastructure and waste water treatment facilities. Given that water is necessary for life itself, we believe it important to preserve water's character as a public trust and a common resource.

The promotion of private sector involvement in the water sector has become highly controversial due to a track record that has included:

- \* Raising the price of water in low-income communities;
- \* Cutting off water to those unable to pay;
- \* Failing to extend the piped water network to poor communities;
- \* Raising the price of new connections to unaffordable levels;
- \* Failing to meet collective bargaining mandates and fair labour standards;
- \* Undercutting local decision-making on water management;
- \* Failing to meet contractual requirements to reduce water pollution and contamination;
- \* Contributing to significant social conflict and unrest because of all of the above.

Given this track record we do not believe that using export credits to provide new incentives for private sector water investment is the correct vehicle to address the truly urgent need to ensure clean and affordable water for the more than 1 billion people who suffer without this vital natural resource. Given the general lack of acceptance by ECAs of any development mandate, this objective can likely be better served with poverty alleviation programs and development assistance.<sup>3</sup>

**4. Insufficient local content provisions** We are pleased to see an increase in the allowed local content for projects. However, we call for an extension of the allowed ceiling to 50%, rather than the proposed 30%, to facilitate the development of local markets and technology transfer to recipient countries, under principles of fair and equal ownership.

The undersigned civil society groups continue to support the stated objective of the proposed changes to the OECD Arrangement. However, we will strongly oppose a proposal that would open the door to preferential treatment for socially and environmentally destructive projects like non-WCD compliant dams or privatized water and sanitation systems, under the guise of supporting renewable energies and sustainable technologies.

Thank you for your attention to these concerns. We look forward to your response.

Sincerely,

Bob Thomson  
Facilitator  
International NGO Campaign on Export Credit Agencies

On behalf of the following organizations:

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<sup>3</sup> A good review of alternative approaches to equitable access to water can be found at <http://www.waterjustice.org/> and <http://www.citizen.org/cmep/Water/articles.cfm?ID=10840>

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