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**A Brief Overview
of
Export Credit Agencies in the Asia-Pacific Region**

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Export Credit and Investment Insurance Agencies (ECAs) and their support for destructive projects – an introduction

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Export Credit Agencies (ECAs) have supported hundreds of dangerous economically, socially and environmentally destructive mega-projects throughout the Asia-Pacific region, including²: the Three Gorges Dam in China, a US\$ 75 billion project estimated to involve the displacement of more than 2 million people and the destruction of biodiversity and cultural sites; a \$530 million ECA loan for India's troubled Coal Sector Rehabilitation Project, tied to a World Bank structural adjustment agenda for the liberalization of Indian coal imports, the deregulation of coal prices, and potentially involving the lay-off of 200,000 people; Indonesia's giant bankrupt Asia Pulp and Paper company (total debt of over US\$ 13 billion) apparently supplied with illegally logged timber³; the planned US\$ 1.8 - \$2 billion Inco Goro nickel mine in Kanaky/New Caledonia on indigenous lands in the middle of protected botanical reserves, adjacent to one of the world's largest reef and lagoon systems; the US\$1.1 billion Bataan Nuclear Power Plant, built in the Philippines but never operated as a result of massive anti nuclear protests – with the people of the Philippines now forced to pay off the associated debt. These and other ECA-supported projects have led to deforestation, the expropriation of indigenous lands and forests, forced evictions, the loss of livelihood, increasing impoverishment, health risks due to pollution, human rights violations, increasing militarization, increased arms sales, and increasing public debt of countries throughout the Asia Pacific region.

Many of those projects would not go forward without insurance against commercial and political risk, loan guarantees, and direct loans from powerful and little known Export Credit and Investment Insurance Agencies (ECAs). These agencies are actually the world's largest public financial institutions, and overshadow the role of all other bilateral and multilateral development assistance.⁴ They include the US Export Import Bank and the Japan Bank for International Cooperation (JBIC) which, recently, have each annually approved new loans and guarantees amounting to approximately US\$ 15 billion. Germany's Hermesbuergschaft (Hermes Guarantee) provides German government guarantees aimed at the promotion of US\$ 20 billion worth of German exports per year. France's COFACE, the British Export Credit and Guarantee Department (ESGD), Canada's Export Development Corporation (EDC), Italy's SACE and Scandinavian ECAs are among the other major global actors⁵. In addition to ECAs from Europe, the United States, and Japan, there are also lesser known ECAs from China, India, Korea, Thailand, Malaysia and Sri Lanka – increasingly taking on a greater role in project support. The World Bank's Multilateral Investment Guarantee Agency (MIGA) acts as the World Bank's ECA and supports destructive projects in developing countries.

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² Some projects mentioned below are from Stephanie Fried, Environmental Defense, Provisional Draft, *Secret Agents of Mass Destruction: ECA in the Asia Pacific Region*, December 2002.

³ Avi Mahaningtyas, NADI, *Why Should Common People Pay For Private Sectors' Bad Debts? Export Credit Agencies' Role in Environmental and Social Destruction through Investment in the Pulp and Paper Sector in Indonesia*, paper presented to the Asia Social Forum, Hyderabad, India, 2-8 January 2003

⁴ Bruce Rich/Environmental Defense and Douglas Norlen/Pacific Environment, *Export Credit Agencies: The need for Environmental and Social Reform*, p.1.

⁵ *ibid*

The mandate of Export Credit and Investment Insurance Agencies is to support the sales of goods and services from companies in the home country of the ECA to buyers in, for the most part, Southern countries, and to provide political risk insurance for home country company projects abroad. ECAs have, essentially, no sustainable developmental mandate and extraordinarily weak, if any, environmental guidelines. They operate in a climate of secrecy and, for the most part, withhold the most basic information on their activities -- often citing "commercial confidentiality" as a reason for their extreme lack of transparency.⁶

The years 1990-1995 saw export credit exposure to developing countries increase at an average growth rate of 11%⁷. By 1996, officially supported export credit accounted for more than 24% of the total indebtedness of developing countries.⁸

How Do ECAs Work?⁹

Since the primary purpose of ECAs is to promote exports and foreign investment by corporations in their own countries, ECA facilities are provided for projects featuring enterprises or financial institutions based in the home countries of ECAs. Projects may involve joint ventures, turn-key projects or the purchase of equipment or services. For ECA clients, the desirability of an investment or a project in a developing country is linked to the availability of raw materials, labor, and the provision of security. Such companies seek security against nationalization and expropriation of the project, currency instability, war and civil disturbance. Security is often provided by the host country through the use of military and paramilitary forces. Economic and political security can be provided by ECAs that provide project loans, political risk insurance, and investment guarantees. ECAs increase the leverage of project proponents and help attract commercial banks, equipment suppliers and contractors. In some cases, Multilateral Development Bank (MDBs) will provide joint financing of a project supported by ECAs. Such partnerships open a country for foreign investment with structural adjustment policies including deregulation, privatization and liberalisation of national economy imposed by World Bank and IMF loan conditionalities and production capital based on foreign direct investment. Countries trapped in the WB/IMF system are forced to adopt or design national policies to promote and protect foreign direct investment. (See chart, next page.)

The Sovereign Counter Guarantee

A company seeking loans from commercial banks for a large project with considerable political and economic risk would likely attempt to first obtain ECA support, whether in the form of a direct loan, an investment guarantee or political risk insurance. In many cases the ECA would, in turn, require a sovereign counter guarantee from the host country where the project will be implemented. If the project were to fail for economic or political reasons, triggering ECA liability, the host country, in turn, would then be liable for the replacement of funds paid out by the ECA. In some cases – for example, Indonesia's corruption-riddled Paiton Power Plant -- if the country has insufficient funds for to make payments associated with the counter-guarantee, the World Bank may step in to "help" with a debt scheme that, in the end, increases the sovereign debt of the country. This system converts the risks inherent in a dubious and purely private sector transaction into the public debt of a developing country. It illustrates the bias of the ECA system

⁶ *ibid*, p.2.

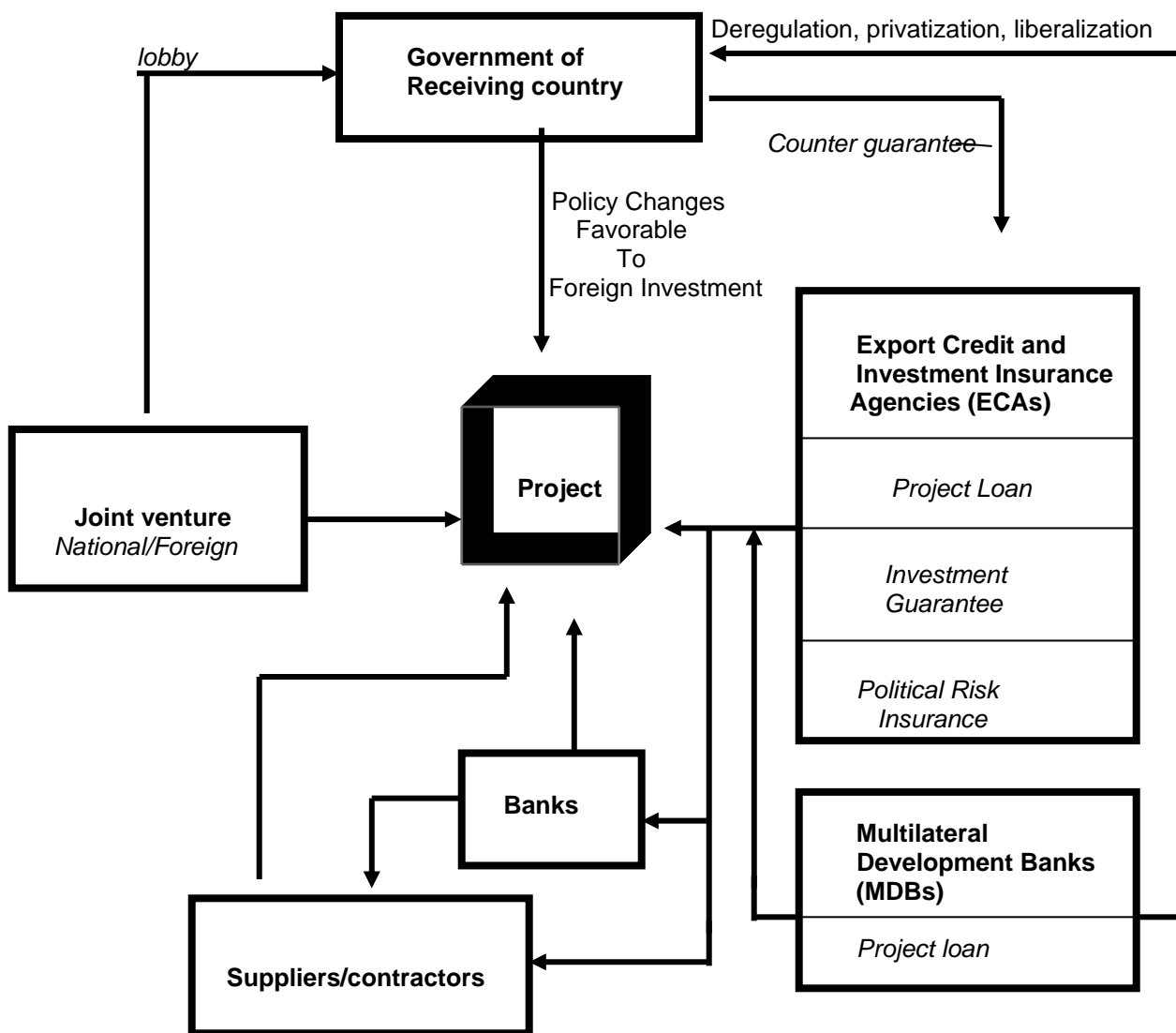
⁷ *ibid*

⁸ Boote, A., D. Ross, et al., *Official Financing for Developing Countries*, IMF, February, 1998, p.11, in Stephanie Fried/Titi Soentoro, *Export Credit and Finance in Indonesia*, p.3, Environmental Defense/Bioforum, December 2000.

⁹ Titi Soentoro, *Role of Export Credit Agencies in Asia Pacific*, paper presented at the Water and Power Privatization Conference of the Asia Pacific Movement on Debt and Development, Bangkok 8- December 8-12, 2003

whereby corporate risk from, often, a Northern country company is shifted to the government and people of a Southern country, while profits remain with private corporations and the ECAs. The case of the Bataan Nuclear Power Plant in the Philippines illustrates this reality as the people of the Philippines continue to pay the debts accrued for the plant despite the fact that this plant has never operated.

The question is: who could lobby a government to obtain a sovereign counter guarantee? In the Indonesian case, most of the mega-projects backed by ECAs were projects developed during legendary corruption of the Suharto era, when the former Indonesian military dictator and his family, relatives, friends and military officers controlled the country's large projects, leading to massive corruption, improper contracting procedures, environmental devastation, and human right violations.



After ECA support, and a likely sovereign counter guarantee provided by the host country, commercial banks and companies are often willing to join and invest in the project.

In times of trouble, when a project fails for political and economical reasons, a claim to the ECAs will activate the sovereign-counter guarantee system. However, practice shows that, with or without the sovereign guarantee, the country will be politically pressured to bail-out the projects. The case of Paiton Power Plant shows us this reality. The post-Suharto government of Indonesia did not want to honor the corruption-riddled Paiton contract and buy electricity from the joint venture. However, governments of the ECAs involved (US, Japan and Germany) together with the Consultative Group on Indonesia (12 Donor Countries) threatened the Indonesian government that they would no longer provide crisis aid and that companies based in their countries would likely withdraw their investments in Indonesia if the Paiton contract was not honored. The Wahid government was forced to withdraw its plan to cancel the Paiton contract and, under pressure, dropped its plan to sue a US company due to project corruption and bribery.

This story illustrates a mechanism to exploit nature and human resources in developing countries and, on the other hand, increase profit of the private companies of the wealthier countries backed by facilities of ECAs and policies of the Multilateral Development Banks. It shows also that the ECA system provides security for the private sector activities of the transnational corporations and commercial banks. No wonder for this: multinational corporations (e.g. General Electric, Newmont Gold Mining, Siemens) are often based in the wealthy countries (US, Japan, Germany) and are supported by their ECAs (OPIC, US-EXIM Bank, JBIC) and their commercial banks (Sumitomo, Deutsche Bank, Credit Lyonnais) and policies of the Multilateral Development Banks, dominated by the US, the European Union and Japan. Currently, however, we are learning more about relatively new ECAs based in industrialized and less-industrialized Asian countries, which have spread their operations throughout Asia and around the world, also supporting a wide range of damaging projects. (See "The Asian Export Credit Agencies" by Gita Meidita.)

Asian Export Credit Agencies

Gita Meidita
NADI

Export Credit Agencies (ECA) from the Northern countries are known as sources of capital loans and investment guarantees to Southern countries. Many high risk projects receive financial support from Northern ECAs including Hermes (Germany), US EXIM (USA), Export Development Corporation - EDC (Canada), COFACE (France), etc. These ECAs have supported or have proposed support for notorious projects in Asia such as the Maheshwar Dam (India), the now-bankrupt Asia Pulp and Paper mill (Indonesia), the San Roque Dam, the Ilijan Power Project (Philippines), and the Three Gorges Dam (China).

But among these giants are also financial actors from a wide range of Asian countries, which also have significant impacts on the lives of many people. JBIC (Japan) is the largest Asian ECA and has already supported a wide range of destructive projects not only in the Asian region but also in southern countries throughout the world. To date, we have identified 588 projects supported by Asian ECAs. This paper presents a brief synopsis of the seven largest ECAs in the Asia region for which data are readily available.¹⁰ Please note that this analysis is based on the size of the loan or guarantee provided by the ECA, and not the total value of the project leveraged by ECA finance.

1. JBIC (Japan Bank for International Cooperation)

JBIC is a Japanese governmental financial institution which, according to its own documentation, aims at (i) stable and autonomous development of the economies and societies of countries in the world, and (ii) closer and stronger economic ties between Japan and the rest of the world.

Established on October 1, 1999 as a result of a merger between The Export-Import Bank of Japan (JEXIM) and The Overseas Economic Cooperation Fund, Japan (OECF), and taking over their operations as its core operations, JBIC undertakes International Financial Operations and Overseas Economic Cooperation Operations (ODA Operations) that are separated in terms of financial sources and accounts.¹¹

JBIC has supported more than five hundred projects across the world. NADI's research has identified 311 JBIC projects in Indonesia and 237 projects in the Philippines, India, Vietnam, Egypt, Azerbaijan, Kazakhstan, Uzbekistan, Cambodia, Laos, Thailand, China, Colombia, Botswana, Sri Lanka, Mexico, Chile, Costa Rica, El Salvador, Turkey, Ghana, Brazil, Pakistan, Hungary, Morocco, Tunisia, Paraguay, Peru, South Africa, Jamaica, Lebanon, Ecuador, Fiji, Malaysia, Nepal, Mauritius, Korea, Argentina, Iran, Hong Kong, Mozambique, and Tunisia.

JBIC characterizes much of its financial support as falling in the "social services" sector – and lists various subsectors such as river rehabilitation projects, sewerage and water supply and management projects, environmental and conservation projects, pipeline projects, urban development projects, human resource and infrastructure development projects, networks system improvement projects. Nonetheless, despite these benign-sounding characterizations of its own work, JBIC has helped leverage funds – often in concert with other ECAs and MDBs --

¹⁰ The project loan data from 1990's to 2003 was gathered largely from the official websites of JBIC, KEIC, Sinosure, KEXIM, MECIB, Thai EXIM Bank, and SLECICS. Please note that it was difficult to locate information on India's Export Credit Guarantee Corporation. Data in this paper, therefore, are skewed by the extent of the availability of information.

¹¹ See www.jbic.go.jp

for some of the largest and potentially environmentally and socially devastating projects in the Asia Pacific region, including China's Qinshan Nuclear plant and Qinbei Thermal power plant, the Bintulu LNG project, the troubled Coal India Rehabilitation Project (in partnership with the World Bank), India's Dabhol/Enron Project (Phase 2), Pakistan's Hub Power Plant and PARCO Oil refinery, and the Philippines' San Roque dam. JBIC's website indicates that its top 10 expenditures in recent years – in terms of support supplied by JBIC -- have been¹²:

- Istanbul Water Supply Project I in Turkey (JBIC support: JPY 52,473.00 million).
- Tiete River Basin De-pollution Projects in Brazil (JBIC support: JPY 49,427.00 million)
- Metropolitan Mexico Sanitation Project in Mexico (JBIC support: JPY 45,112.00 million)
- Istanbul Water Supply Project II in Turkey (JBIC support: 42,310.00 million)
- Guanabara Bay Basin Sewerage System Construction Project in Brazil (JBIC support: JPY 31,475.00 million)
- Rural Areas Infrastructure Development Project (II) in Indonesia (JBIC support: JPY 29,738.00 million)
- Bangalore Water Supply and Sewerage Project in India (JBIC support: JPY 28,425.00 million)
- Lima Marginal Areas Sanitary Improvement Project in Peru (JBIC support: JPY 24,854.00 million)
- Parana State Environmental Improvement Project in Brazil (JBIC support: JPY 23,686.00 million)
- Rural Areas Infrastructure Development Project in Indonesia (JBIC support: JPY 21,000.00 million)

2. KEIC (Korea Export Insurance Cooperation)

KEIC is an official Export Credit Agency (ECA) of Korea and was established in July 1992. KEIC is a specialized non-profit corporation under the guardian authority of the Ministry of Commerce, Industry and Energy, and is provided with a full guarantee of the Korean government.¹³

KEIC support has been identified for 15 projects in Indonesia, China, Singapore, Vietnam, Pakistan, Uzbekistan, France, Mexico and Taiwan.

3. SINOSURE (China)

China Export & Credit Insurance Corporation (SINOSURE), wholly state-owned, is China's only official export credit insurance agency and is authorized by China's State Council. The Corporation, created out of the merger of the Export Credit Insurance Departments of PICC and of the Export and Import Bank of China, was launched and entered into full operations on 18 December 2001.

Guided by the Government's diplomatic, foreign trade, industrial and financial policies, SINOSURE'S mandate is to support the export of goods, technology and services, especially high-tech and high value-added capital goods, to provide Chinese enterprises with protection against payment risk and to facilitate the development of overseas markets.¹⁴

SINOSURE support has been identified for 11 projects in Iran, India, Cuba, Turkmenistan, Bangladesh, Pakistan, Nigeria, Malaysia including Iran's Karun3 Dam, the provision of oil drilling

¹² Please note that this and other "top ten" lists in this paper are not sorted by overall size of the investment leveraged by Asian ECA involvement. Instead, they are sorted by amount of ECA investment as declared on the ECA's official website.

¹³ see www.keic.or.kr

¹⁴ see www.sinosure.com.cn

equipment for Turkmenistan, power plants in Bangladesh, India, Nigeria, and India and Malaysia's notorious Bakun Dam.

4. KEXIM (Export Import Bank of Korea)

The Export-Import Bank of Korea is an official export credit agency providing comprehensive export credit and project finance to support Korean enterprises in conducting business internationally. Since its establishment in 1976, the Bank has endeavored to facilitate the development of the national economy and enhance economic cooperation with foreign countries as a financial catalyst.

Pursuant to the Export-Import Bank of Korea Act, the government guarantees the Bank's solvency and provides funds to cover any net loss beyond its reserves. The government offers general strategic advice in relation to the Bank's business policies and operation, but states that the Bank is vested with a clear-cut degree of independence in formulating its operational policies and other activities.¹⁵

KEXIM support has been identified for 9 projects in Indonesia, China, and Iran, including support for the provision of vehicles for Indonesia's military, support for China's Hainan Pipeline, and Iran's Bandar Assaluyeh aromatics plant.

5. MECIB (Malaysia Export Credit Insurance Berhad)

MECIB was established in 1977 as a joint venture company with the government, commercial banks and insurance companies being the shareholders. Government linkage was enhanced in 1988 with the placement of MECIB under Bank Industri Malaysia Berhad's ownership, an industrial bank wholly owned by the Government.¹⁶

MECIB support has been identified for projects in Indonesia, Cambodia, and Philippine, including support for the Philippines' Batangas/Enron Santa Rita Power Plant and Indonesian palm oil plantation research.

6. Thai EXIM Bank (Thailand)

Export-Import Bank of Thailand (EXIM Bank) is a financial institution wholly owned by the Royal Thai Government under the Ministry of Finance's supervision. EXIM Bank was established by the Export-Import Bank of Thailand Act B.E. 2536 (1993) which became effective on September 7, 1993. According to the Act, the initial capital of 2,500 million baht was paid by the Ministry of Finance and the Bank of Thailand. Following rapid business expansion, the Bank's capital was increased with the Ministry of Finance's additional contribution of 2,500 million baht and 1,500 million baht in April and July 1998, respectively.¹⁷

We have identified one high risk project , the Theun Hinbound Hydro Power Plant), in Laos supported by this ECA.

7. SLECICS (Sri Lanka Export Credit Insurance Corporation)

SLECIC was created on 08 February 1979 by Act No. 15 of 1978 with a paid up capital of LKR. 5.0 million contributed by the Central Bank of Sri Lanka and the Insurance Corporation of Sri Lanka Ltd. This ECA has built reserves for payment of future claims having paid a sum of LKR.146.4 million in claims as at end of Oct. 1998. At present, SLECIC is secured by a

¹⁵ see www.koreaexim.go.kr

¹⁶ see www.mecib.com.my

¹⁷ see www.exim.go.th

Government Guarantee of LKR.500.0 million and a special Government Guarantee of LKR.100.0 million. A request to enhance these limits is under consideration.¹⁸

We have identified one project loan in Iran supported by this ECA.

Conclusion

Data on ECA finance, in general, are difficult to obtain. To date, the primary focus of public interest has been aimed at ECAs originating from Europe, the United States and Japan. However, little scrutiny has been placed on ECAs, other than JBIC, based in countries throughout the Asian region. These Asian giants have supported controversial projects, in an untransparent manner, generally lacking social and environmental standards. The increasing number of projects supported by ECAs from the Asian region, including those known for substantial negative environmental and social impacts, invites much closer scrutiny.

¹⁸ see www.tradenets.lk/slecic

A Legacy of Destruction: Export Credit Agencies in the Asia-Pacific region

Stephanie Fried, Ph.D.¹⁹
Environmental Defense

Introduction

Export Credit Agencies have financed and guaranteed some of the most extraordinarily destructive and dangerous mega-projects in the Asia - Pacific region. They have helped place nuclear power plants close to crowded urban areas; helped clear indigenous lands of forests and people for voracious paper and pulp mills; helped erect giant dams and construct massive mines, displacing millions of people. Environmental devastation, human rights violations, increasing militarization and terror have been regularly associated with ECA-supported projects. Over the past few years, however, non-governmental organizations (NGOs) and peoples' movements have begun to subject these secretive publicly-held financial institutions to long-overdue scrutiny.

Unfortunately, however, it is still quite difficult to obtain accurate and timely information on the projects planned, financed, or guaranteed by ECAs. Some countries go so far as to classify details on ECA project finance as a state secret, unavailable for public scrutiny.

This paper presents the preliminary stage of an attempt to identify and track existing and planned Export Credit Agency support for projects throughout the Asia-Pacific region. This paper also presents preliminary case studies of ECA finance in India, including information on twelve proposed Indian power plants in the planning stages, currently negotiating with ECAs for coverage, and an overview of the role of ECA and other public finance in the French Pacific Island territory of Kanaky/New Caledonia, the location of 20% of the world's nickel laterite reserves.

Overview of Data: 600 projects, of which 253 are valued at US\$160 billion

We have combed through information on thousands of projects in 25 countries in the Asia-Pacific region, primarily from newspaper articles, ECA web sites, and an increasing number of studies on ECA finance by NGOs around the world. The data are often contradictory in nature, incomplete or erroneous which has meant a need for constant cross-checking.²⁰

So far, we have identified over 600 existing and planned ECA-supported projects in the Asia-Pacific region. Of these projects, 548 have been reported with signed ECA finance packages. However, at this moment, we only have information on the total project value for 253 of these projects, worth over US\$160 billion. Data on the amount of exact ECA finance within a given project is difficult to come by. For now, we are utilizing the total project value to indicate the amount of private sector and public sector finance leveraged by ECA support. We are in the middle of research to identify the project value of the remaining 295 projects. In addition, we

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²⁰ We would like to request that those of you who identify ECA-supported projects not already captured on our lists send this information to us. In addition, please notify us if you find errors, or if you have additional information regarding the amount of finance provided by ECAs, new ECA involvement, or additional information regarding total project values. Please indicate the source (author, title of article/publication, place and date of publication) of your information.

have identified close to 60 projects in the planning or "unknown" stages which appear to be in negotiations with ECAs for finance. These planned and "unknown status" projects are valued at close to US \$34 billion.²¹

One of the caveats of working with our data set is the fact that it is likely to be highly biased by differential levels of access to data from each ECA. For example, the U.S. Export-Import Bank publishes the minutes of its board meetings on the web so it is a relatively straightforward process to obtain information about existing and planned USEXIM projects. The Japan Bank for International Cooperation, on the other hand, is the largest public financial institution in the world and, one would suspect, the largest player on the Asia-Pacific ECA scene. However, relatively little information is available on JBIC projects, compared to USEXIM. Therefore, our research results likely reflect a higher profile for USEXIM and a lower profile for JBIC than actually warranted. In addition, the Canadian NGO, Probe International, has conducted extraordinarily painstaking reviews of newspaper clippings and has built a database – posted on the web -- spanning four decades of Export Development Canada loans and guarantees. This incredible documentation vastly enriches our understanding of EDC activities in Asia and may elevate the position of EDC relative to other equally active ECAs which have not been the subject of such tireless scrutiny.

We have only just begun to research the project support provided by other public financial institutions, such as the World Bank Group and the Asian Development Bank, for projects which receive ECA finance. In the future, we hope to trace the nexus between multilateral and bilateral finance in the Asia-Pacific region.

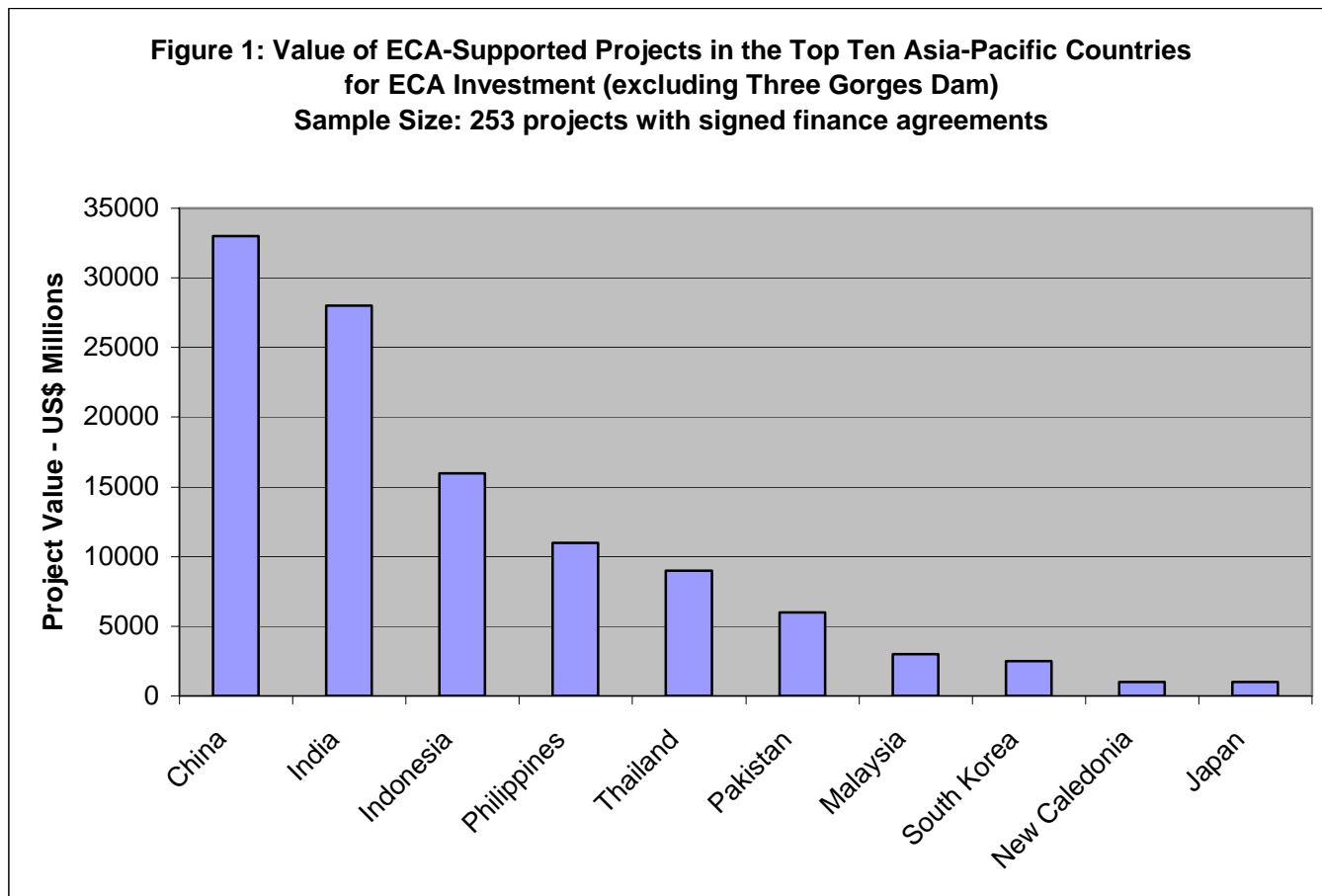
Asia-Pacific Country Overview: Top 10 Countries

With these caveats about the data in mind, the top ten countries in the Asia-Pacific region with ECA-supported projects for which total project finance data is available are **China, Indonesia, India, Philippines, Thailand, Pakistan, Malaysia, South Korea, Kanaky/New Caledonia, and Japan**. China is by far the largest country represented in our sub-sample of projects with known finance totals. The Three Gorges Dam, supported by ECAs from six countries, adds up to US\$75 billion in project costs. China's largest projects include nuclear and coal power plants and seventy-two airplane deals. Indonesia's top projects include the corruption-plagued Paiton power plant, notorious gold and nickel mines and some of the most damaging paper and pulp operations in the world.²² India's top projects include Enron's scandalous Dabhol plant, the Russian-financed Kudankulam nuclear plant, a massive project to support 24 Coal India mines (in partnership with the World Bank), the Tehri dam, and the Chamera I and II dams. ECA finance was planned for the proposed Maheshwar Dam, but a vigorous peoples' movement campaign linked to an ECA campaign led to the withdrawal of companies involved in that financing package. The top four projects in the Philippines include the notorious Sual power plant, the San Roque Dam, Enron's Batangas power plant and the Bataan nuclear plant. For details on projects in other countries, see Tables 1 – 8. It is interesting to note that tiny Kanaky/New Caledonia – a biodiversity hot-spot with 75% of its flora endemic and with immense nickel wealth located on indigenous lands, makes it onto our top ten list and is likely to be increasingly targeted by ECAs partnering with multinational mining companies. Last year, indigenous rights activists, environmentalists, labor unions and a targeted finance campaign succeeded in delaying \$350 million of French subsidies leading, in December 2002, to the postponement of a gigantic proposed Kanaky nickel venture, at significant cost to the company.

²¹ Most of the graphs of project finance included with this paper, therefore (as noted on each graph), are drawn from the subset of 253 projects with signed ECA finance packages and for which we have information on total project values.

²² See, S. Fried and T. Soentoro, "Export Credit Agency Finance in Indonesia," December 2000.

However, in December 2003, the French government announced the provision of new and higher levels of public finance for the operation.



Sectors Supported by ECA Finance

The Power Sector

The power sector -- nuclear, big dam hydropower, fossil fuel -- represents by far the highest value sector for projects for which total finance data is available. This is followed by aircraft deals, mining, oil and gas, telecommunications and information technology, rail (often linked to coal extraction) and paper, pulp and timber.

Nuclear power

Since the 1960's Export Credit Agencies have supported the spread of nuclear power through the Asia-Pacific region by supporting the construction of at least 17 nuclear power plants.²³ For example, the U.S. Export-Import Bank helped Japan launch the expansion of its nuclear industry. In the 1960's, Canada's EDC helped Pakistan fund the Karachi Nuclear Power Project. The largest French export finance coverage in history was arranged for China's Ling Ao 2/Daya

²³ See Sierra Club of Canada et al, "Financing Disaster: How the G8 fund the Global Proliferation of Nuclear Technology," June 2001; Probe International, "Projects Supported by Export Development Canada," "Lingao Nuclear Power Station, China", www.power-technology.com, The Website for the Power Industry"; "Lingao in China", No Nukes Info Source. www.ecology.at/nni; Maristela dela Cruz-Cardenas, "ECAs and Debt: A look Into the Philippine Power Industry and the Debt Crisis", Freedom from Debt Coalition. 2002.

Bay 2 reactor, located alarmingly close to Hong Kong. Some examples of ECA-supported nuclear projects include:

China: Lianyungang, Ling Ao 2/Daya Bay 2, Qinshan Power Plant, Qinshan II, Qinshan III

India: Kudankulam, Rajasthan Atomic Power Plant (RAPP –1), RAPP – 2

Japan: Fukushima 1 and 2, Fukushima 6, Tokai II, Tsuruga 1

Pakistan: Karachi Nuclear Power Project/KANUPP

Philippines: Bataan Power Plant

South Korea: Wolsong 1

Fossil Fuel Power Plants

ECAs have supported over US \$20 billion of fossil fuel plants in Bangladesh, Cambodia, China, Hong Kong, India, Indonesia, Laos, Malaysia, New Zealand, Pakistan, Philippines, Thailand. According to Indian power and finance publications, proponents of at least twelve planned power plants are in the process of attempting to secure support from ECAs in Germany, Switzerland, Britain, France, Belgium, the United States, Korea, Italy, and Japan.²⁴

Damming Asia's Rivers

Below are a few examples of ECA-supported dams in the Asia-Pacific region

China's Three Gorges Dam – ECAs from six countries are supporting this project – valued at up to US\$75 million which the World Bank refused to fund and which may lead to the forcible resettlement of up to 2 million people.

Philippines: San Roque Dam -- fiercely opposed by thousands of indigenous Ibaloi peoples; estimated more than 35,000 indigenous people will be adversely affected.

India Dams

Tehri Dam: located in an earthquake zone, with potential flooding of 107 villages and displacement of over 100,000 people;

Chamera Dams I and II: plagued by technical problems; led to increased deforestation and desertification, depleted fish stocks, families displaced remain landless and jobless.²⁵

Maheshwar Dam: a massive campaign led to the withdrawal of company-linked ECA support.

Notorious mining operations

ECAs have provided support for mines in China, India, Indonesia, New Caledonia, Papua New Guinea, Philippines.

India: Japan's JBIC partnered with the World Bank, as agency agreed to provide US\$530 million for a "Coal Sector Rehabilitation" package to support twenty-four of Coal India's opencast coal mines. The World Bank loan was to be tied to a structural adjustment agenda

²⁴ See: "At What Cost? ECAs in India" for the list of proposed projects and the ECAs targeted by project proponents.

²⁵ International Rivers Network, "San Rogue Hydropower and Irrigation Project", May 2002; Reckless Lending II: How Canada's Export Development Corporation Puts People and the Environment at risk

of the liberalization of coal imports, deregulation of coal prices and the "retrenchment" of personnel – possible lay-offs of 200,000 people.²⁶

Indonesia:

Newmont's Batu Hijau copper and gold mine in Sumbawa, Nusa Tenggara Barat. Involved in the forced seizure of lands from the surrounding villages, the destruction of fishery resources and turtle habitat, increased militarization of the region apparently leading to shootings, the Batu Hijau mine is designed to dump its waste into the ocean (submarine tailings disposal), a heavily criticized process which can lead to contamination of the marine ecosystem by heavy metals and other toxins. ECAs: JBIC, USEXIM. Additional funding provided by German development bank, KfW (which is not an ECA, but which often acts in tandem with ECA support).

PT. INCO nickel mining concessions, Sulawesi: PT Inco has been involved in significant conflicts with local and indigenous communities as a result of land seizures, air and water pollution, forest destruction. ECAs: JBIC, EDC

Papua New Guinea: Lihir, Porgera, and Ok Tedi mines -- all linked to massive environmental destruction and human rights problems

Philippines: Dizon copper mine, Marcopper mine, linked to toxic pollution, deaths of villagers

Kanaky/New Caledonia: Planned US\$1.8 - \$2B Inco Goro Nickel mine on indigenous lands in the middle of botanical reserves, adjacent to one of the world's largest reef and lagoon systems. The company plans to use an untested sulphuric acid leaching process. France's Agence Francais de Developpment (AFD) provided an initial loan for the mine's coal-fired power plant. Thanks to vigorous public, NGO, and labor union protests and a public finance campaign, in December 2002, construction at the site was postponed for over a year.

Oil and Gas

ECAs have funded oil and gas projects in China, India, Indonesia, Malaysia, Myanmar Pakistan, PNG, Thailand, including

Myanmar: JEXIM support for the Yetagun gas field operation -- linked to militarization and massive human rights abuses;

Indonesia: Expansion of Unocal operations. ECA: OPIC. West Seno I and II, East Kalimantan: Involved in significant conflicts with local communities, which blockaded the company's transportation lines in 2000, Unocal has been accused of causing severe air and water pollution. The Unocal deal represented the first large U.S. investment support package for Indonesia since the fall of the Suharto dictatorship. The package was apparently designed as part of an "instant reward" by the Bush Administration for President Megawati's "commitment to join the global war against terrorism."²⁷

Logging and Pulping Asia-Pacific Forests and Forest Peoples

ECAs have provided support for some of the largest and most destructive paper and pulp mills in the world. ECA support for the paper, pulp, and timber sector is found in China, Indonesia, Malaysia, Thailand, Vietnam, Western Samoa.

Indonesia: Notorious & bankrupt APRIL, APP mills and the PT. TEL mill-- human rights violations, destruction of Sumatra's remaining forest

Malaysia: Sabah Forest Industries; South Saba Paper & Pulp

²⁶ P. Bosshard, "Mainstreaming Sustainability? The World Bank and the Rehabilitation of the Indian Coal Sector," Berne Declaration, 4/26/96

²⁷ S. Fried, "Deceived Again? The "War Against Terrorism", OPIC, and UNOCAL Operations in East Kalimantan," June, 2002

Vietnam: eucalyptus & acacia plantation

Health Care: More cigarettes for China!

In June 2002, Germany's Hermes signed a contract to provide support for a cigarette mill in China.

At What Cost? ECAs in India: Bankrolling Nuclear Power Plants, Mega-Dams, and Scandal- Ridden Projects

Stephanie Fried, Ph.D.²⁸ and Josh Dimon
Environmental Defense

January 2004

The record of Export Credit Agencies (ECA) in India is no exception to the overall pattern of ECA support for extraordinarily destructive and dangerous mega-projects. Due to the secretive nature of many ECAs, it is still difficult to obtain accurate and timely information on ECA-financed projects. Last year, we combed through information on thousands of projects in 25 Asia-Pacific countries and identified 600 existing and planned ECA-supported projects, including sixty-two projects in India either currently supported by ECAs or in negotiation for ECA finance.²⁹ Given the contradictory, incomplete and often erroneous nature of data regarding ECA finance, this year we focused on further refining the India data-set, and identified 35 of the most significant ECA-backed projects in India, ranging from controversial nuclear power plants, to the notorious Dabhol/Enron project to hydropower projects associated with massive resettlement plans.

The 35 projects in our sample were valued at over U.S. \$28 billion and were dominated by the power sector. The projects include Russian export credit support for the Kudankulam Nuclear Plant and Canadian ECA support for two phases of the Rajasthan Atomic Power Plant (RAPP 1 and 2). ECAs have shown interest in supporting large hydropower projects, notably the Chamera dams, the proposed Tehri dam, slated to displace over 100,000 people, and the notorious Maheshwar Dam, which spawned a vibrant social movement forcing reconsideration of the project. ECA support is planned for the controversial Mangalore power plant. ECA involvement in India has also included U.S. Export-Import bank support for the Sanghi cement plant, which has been plagued with environmental problems since its inception, generating two public interest lawsuits regarding the location of the plant and its jetty in the Narayan Sarovat Sanctuary and a protected Mangrove Reserve forest.

At times, ECAs work in tandem with multilateral financial institutions such as the World Bank Group and the Asian Development Bank. Japan's ECA, the Japan Bank for International Cooperation (JBIC) worked with the World Bank to support the notorious Coal Sector Rehabilitation Project. The ADB partnered in plans for the scandalous Dabhol/Enron project with British, American, Japanese, and Belgian ECAs. Germany's Hermes partnered with the World Bank's International Finance Corporation (IFC) in plans for the Tehri Dam. The ADB and the IFC are partners with Italy's SACE and Korea's Export Import Bank in plans for the Balagarh Power Project.

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²⁹ Fried, S. , "Secret Agents of Mass Destruction: Export Credit Agencies in the Asia-Pacific Region", Environmental Defense, December 2002. Presented at Asian Social Forum, Hyderabad, India.

In this brief summary paper, we will examine one case study of an ECA-supported project, the Kudankulam Nuclear Plant.

The Case of the Kudankulam Nuclear Power Plant

In 1988, a year after the Chernobyl accident, India signed an agreement with the Soviet Union for the construction of the two 1000 MW capacity light water nuclear reactors. The Russian state-owned Vnesheconombank agreed to provide export credit loans to the Indian government covering approximately 50% of the construction costs.³⁰ The proposed Kudankulam nuclear plant in Tamil Nadu was initially estimated to cost 60 trillion rupees (6,000 crore) and the agreement allowed India to repay Russian loans for the project in rubles. Due to the break-up of the U.S.S.R., the project was delayed for over a decade. The deal was resurrected when former president Boris Yeltsin visited India in 1998.³¹ Approximately 300 Russian companies are expected to take part in constructing the reactors.³² Russian firm TVEL will supply US\$400 million worth of nuclear fuel to the Power Plant by 2010.³³ The fuel agreement states that Russia will provide the fuel for 40 years at the fixed cost of US\$157 million per year.³⁴

In November 2001, India and Russia updated their earlier agreement, indicating that the investment for the plant would require 170 trillion rupees (17,000 crore) or approximately US\$3.5 billion, to be repaid in dollars. The new agreement eliminated Russia's obligation to take back the spent fuel and changed the terms of the loan so that it would be repaid in U.S. dollars instead of rubles.³⁵ The meeting to finalize the new agreement was held behind closed doors, apparently contrary to the public hearing clause in the 1994 EIA law³⁶. Apparently, very little is known about any of the environmental, social or technical clearances provided for the project. Since nuclear plants are treated as issues of national security, none of the studies for the project have been released to the public.³⁷ Concerns have been expressed that the thermal pollution could destroy marine life along the coast from Kanyakumari to Ramanathapuram and have an impact on Sri Lanka.³⁸ The plant will utilize VVER Russian pressurized light water reactors.³⁹ In 1997 Dr. Alexy Yablokov, Chairman of the Russian National

³⁰ Vnesheconombank, a Russian state-owned bank acts "to establish efficient governmental mechanisms to promote Russian exports. Based on the world's practice, specifically, the experience of OECD member-states and with due regard to all WTO requirements and standards, VEB is developing mechanisms designed to help Russian export companies to gain access to the world market. Vnesheconombank owns 95% of Roseximbank – an institution charged with putting these mechanisms into effect." The Mumbai office of the bank is one of the most active offices world-wide. 1999 Annual Report, also VEB website.

³¹ "Russia, India sign 400-million-dollar nuclear fuel deal," Agence France Presse, 2/3/02

³² *ibid*

³³ India Signs Contract With Russia for Supply of Nuclear Fuel, Global News Wire - Asia Africa Intelligence Wire, February 13, 2003

³⁴ Russia-India, The Press Trust of India, September 23, 2002

³⁵ Later estimates have been made of 13,171 crore rupees. "Kudankulam Nuclear Power Project Ahead of Schedule: The Total Cost of the Project was RS 13, 171 Crore and the Russian Government would Fund 50 Per Cent as a Soft Loan," Kasturi and Sons Ltd, Business Line, 1/2/03. Vigorous campaign against Koodankulam project planned, The Hindu, November 12, 2001

³⁶ Vigorous campaign against Koodankulam project planned, The Hindu, November 12, 2001

³⁷ Rediff.com interview with S P Udayakumar, Rediff.com, November, 2000

³⁸ Vigorous campaign against Koodankulam project planned, The Hindu, November 12, 2001

³⁹ <http://www.npcil.org/docs/kudintron.htm>

Ecological Security Council stated that VVER reactors were not safe.⁴⁰ Dr. A Gopalakrishnan, chairman of the Atomic Energy Regulatory Board from 1993 to 1996, stated that as of 2000, the most pressing safety recommendations for Indian nuclear reactors had not yet been implemented.⁴¹ There are apparently plans to install an additional 6 reactors at Kudankulam after the initial 2 are finished.⁴²

There have been reports that the loan package for the reactors may be linked to defense deals with Russia: the purchase of T-90 tanks, SU-30 fighter aircraft, a Russian aircraft carrier Admiral Gorshkov, and the possible purchase of a nuclear submarine.⁴³ The compensation paid to the communities for the land on which the reactors will be built, which was often the sole asset held by many families, was approximately US\$43 per acre with a payment of US\$2 per cashew tree.⁴⁴

Activists Take Note: Indian Power Plants in the Planning Stages, Currently Negotiating with Export Credit Agencies for Finance

According to Indian power and finance publications, proponents of the following twelve power plants are in the process of attempting to secure support from ECAs in Germany, Switzerland, Britain, France, Belgium, the United States, Korea, Italy, and Japan:

Coal

Videocon Power Project/ Ennore; (Germany's Hermes; Switzerland's ERG)
Central India Power Company/Bradrawati; (Britain's ECGD; France's COFACE)
Vizag/Power Hinduja National power/ Vishakhapatnam (Britain's ECGD, Belgium's OND)
BPL Power Projects/Ramagundam (Japan's JBIC)
Talcher Transmission (Germany's Hermes)
Korbra Power (Korea's Export Import Bank; Italy's SACE, Germany's Hermes)

Naptha:

Dholpur Power Company (Germany's Hermes)

Gas:

Vypeen Power Project/ Puthuvypeen (Switzerland's ERG)
Bellary Power Project, Bellary (U.S. Export Import Bank)

Gas/Naptha:

PPN Power Generating Co/Pillaiperumalnallur (Japan's JBIC)

Hydro:

Dhaultiganga Hydroelectric Power Plant (Japan's JBIC)

⁴⁰ The Russian Connection, rediff.com, November, 2000

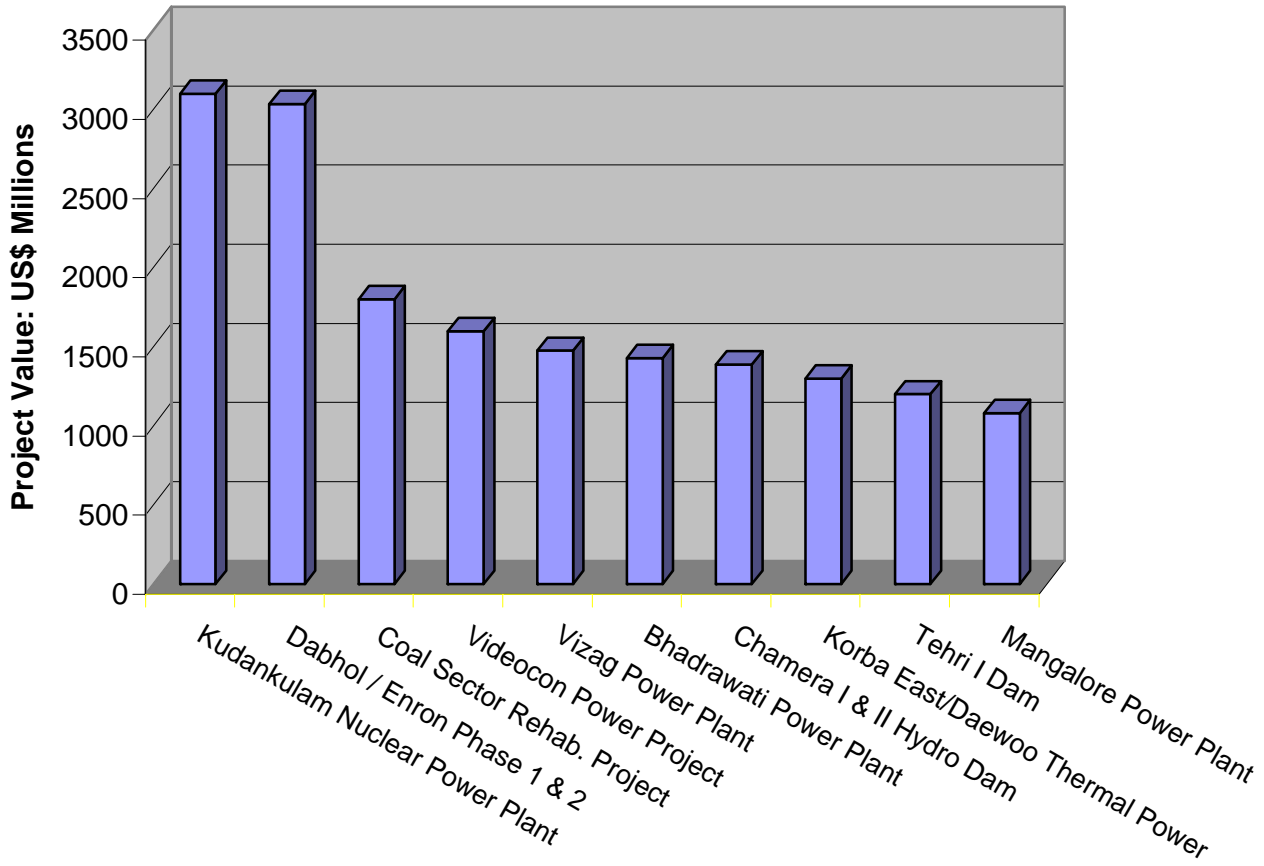
⁴¹ Rediff.com interview with Dr. A Gopalakrishnan, Rediff.com, November, 2000

⁴² Indian-Russian nuclear power project on course, Moscow News, December 11, 2002

⁴³ The Russian Connection, rediff.com, November, 2000

⁴⁴ India's interest is not electricity, but nuclear bombs, rediff.com, November, 2000

Figure 1. India: Top Ten Existing & Planned Projects for ECA Finance
Sample Size: 35 existing and proposed projects.



	Project	Status	Amount (US\$m)	Initial Clearance / MOU Date	ECAs	ECA Finance (US\$m)	Other Public Finance	Other Public Finance Amount (US\$m)	Sector	Sub-sector
1	Kudankulam Nuclear Power Plant	Signed	3,100	6/1/88	Vnesheconombank	2,600			Power	Nuclear
2	Dabhol / Enron Phase 1 & 2	Signed	3,035	Phase I: 1/1/1996 Phase II: 6/14/99	I: JEXIM I: OND I: OPIC II: ECGD II: OPIC II: USEXIM	258 392 16 100 298	I: ADB I: MITI	26 175	Power	Gas
3	Coal Sector Rehabilitation Project	Signed	1,800	9/9/97	JEXIM	530	IBRD IDA	530 2	Mining	Coal
4	Videocon Power Project	planned	1,600	10/1/94	ERG SACE Hermes	115 73 300			Power	Coal
5	Vizag Power Plant	planned	1,475	7/1/95	ECGD OND	150			Power	Coal
6	Bhadrawati Power Plant	planned	1,430	6/18/93	ECGD COFACE	440 440			Power	Coal
7	Chamera I & II Hydro Dam	Signed	1,390	Phase I: 1/1/1984 Phase II: 1/1/1986	I: EDC II: EDC	309 175			Power	Hydro-power
8	Korba East Thermal Power Station (Daewoo Power Project)		1,300	10/1/94	SACE Hermes Korea Export Import Corp (KEIC)	431 223 144			Power	Coal
9	Tehri I Dam	Signed	1,200	1/1/73	Hermes	32	IFC KfW	3	Power	Hydro-power
10	Mangalore Power Plant		1,080	7/30/92	USEXIM ECGD	329 263			Power	Coal
11	Talcher Transmission Project	planned	917	1/1/98	Hermes		KfW	179	Power	Transmission
12	Gujarat Paguthan Power Project (Gujarat)	Signed	761	2/3/94	Hermes	0	KfW	290	Power	Dual Fuel (Naptha

	PowerGen Energy Corporation - GPEC)									and Gas)
13	Dholpur Power Project	planned	725	2/1/94	Hermes	274	KfW	106	Power	Combined Cycle
14	BPL Power Project (Ramagundam Power Project)	planned	672	4/1/96	JBIC	285			Power	Coal
15	Balagarh Power Project	planned	632		SACE KEXIMBANK	44 153	ADB IFC	115 140	Power	Coal
16	Bhilai Power Plant	planned	625	10/3/97	USEXIM OPIC	81 200			Power	Coal
17	Vypeen Power Project/Puthuvypeen/LPG Power Plant	planned	415	1/1/95	ERG				Power	LNG
18	Pillaiperumalnallur Power Generation Company Project (PPN Power)	completed	276	11/24/95	JEXIM	59	MITI	39	Power	Naptha
19	Kondapalli Power Project	completed	275	1/22/98	KEXIMBANK	70			Power	Combined Cycle
20	Maheshwar Dam	withdrawn	257	1/1/97	Hermes	257			Power	Hydro-power
21	Dhauliganga Hydroelectric Power Plant	Signed	215	2/25/95	JBIC	141			Power	Hydro-power
22	Simhadri Thermal Power Station Project	Signed	206	3/10/95	JBIC				Power	Coal
<i>The projects listed below are currently being researched</i>										
23	Gandhar gas cracker plant	Signed	1,000	1/1/92	ECGD USEXIM	47 147			Oil/ Gas	Proces- sing
24	Ibil Energy Systems Limited/ Gas Turbines	Signed	70	6/26/97	USEXIM	19			Power	Integrated Gasifica- tion Combined Cycle

25	Sanghi Cement Plant	Signed	280	3/22/95	USEXIM	30			Manufacturing	Cement
26	Jindal Tractebel Power Plant	Signed	357	1/1/93	USEXIM	74			Power	Combined Cycle
27	Jindal Vijaynagar Steel Mill	Signed	1,520	1/1/94	EDC USEXIM	13 85			Manufacturing	Steel
28	Jindal Vijaynagar Pellet Plant	Signed			USEXIM	34			Manufacturing	Iron
29	Jindal Praxair Air Separation Plant	Signed			USEXIM	13			Manufacturing	Chemical
30	Industrial Development Bank of India (IDBI) Infrastructure Project Financing	Signed	300	1/22/96	JEXIM	300			Infrastructure	multiple
31	Private Sector Infrastructure Facility	Signed	600	10/9/97	JEXIM	300	ADB	300	Infrastructure	multiple
32	Rajasthan Atomic Power Plant I, II - (RAPP - 1, 2)	Signed	146	I: 1/1/63; II: 1/1/66	I: EDC II: EDC	I: \$37.00 II: \$38.50			Power	Nuclear
34	Rajmahal Coal Mine	Signed	175	1/1/88	EDC	175			Mining	Coal
35	Srisailam Left Bank Power Station Project I, II, & III	Signed	560	I: 2/10/88 II: 2/25/95 III: 4/6/97					Power	Hydro-power

Export Credit Agencies' Role in APP's Debt Mechanism and Environmental and Social Destruction

Gita Meidita
NADI

ECAs and APP Debt Mechanism

Asia Pulp and Paper (APP), Indonesia's largest paper and pulp company, is a member of the Sinar Mas Group (SMG), a conglomerate housing the largest oil palm company in the world along with insurance, housing, and banking businesses. SMG is owned by a prominent Indonesian tycoon, Eka Tjipta Widjaya (Oei Ek Tjhong). In 1995, APP was listed on the New York Stock Exchange and became the second largest pulp and paper producer in Asia, with a pulp production capacity of 2.3 million tonnes/year and a paper production capacity of 5.7 million tonnes/year.⁴⁵

APP is the "mother company" for four major pulp and paper operations - Indah Kiat, Lontar Papyrus, Pindo Deli and Tjiwi Kimia. It also operates the same type of business in China and India. APP invested US\$ 8 billion in its Indonesia operation (with four companies), and US\$3.9 billion in China.⁴⁶

APP received guarantees and loans from ECAs in ten countries⁴⁷ and from commercial banks around the world. It is clear that these institutions failed to carry out the basic due diligence required for such a significant investment. It is likely that the ECA "seal of approval" and provision of support led private sector banks to invest heavily in this extraordinarily risky venture. (See table below.)

Financial Institutions Supporting APP:

ECA	<ol style="list-style-type: none"> 1. Swedish Exportkreditnamnden 2. Finnish Guarantee Board 3. Compañia Espanola de Seguros de Credito a la Exportacion S.A (CESCE) 4. Denmark Exportkreditfonden (Ekf) 5. Canada Export Development Corporation (EDC) 6. Hermes German 7. US EXIM 8. Italy Sezione Speciale per l'Assicurazione del Credito all'Esportazione (SACE) 9. Nippon Export Import Insurance (NEXI) 10. Austria Oesterreichische (Österreichische) Kontrollbank AG (OeKB)
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⁴⁵ Christopher Barr, APP and debt-financed forest destruction; Down to Earth No. 52, February 2002.

⁴⁶ Christopher Barr, The Financial Collapse of Asia Pulp & Paper: Moral Hazard and Implication for Indonesia's Forests, Paper presented at the Asian Development Forum-3, Bangkok, June 12, 2001.

⁴⁷ Bioforum – RMI, Informasi Dasar: Peranan ECA di Indonesia dan Dampaknya, Bioforum, Bogor, 2001. p 11.

International bank	<ol style="list-style-type: none"> 1. ABN-Amro 2. Bank of America 3. Bank of China 4. Barclays Bank 5. Capital Group 6. Fortis Bank 7. Franklin Templeton 8. Goldman Sachs 9. ING Bank 10. Northwest Bank Minnesota 11. NatWest 12. Morgan Stanley Dean Witter 13. Merrill Lynch 14. UBAF 15. Merita Bank (Japan) 16. Deutsche Bank AG (German) 17. BNP Paribas (France) 18. Credit Suisse First Boston
National bank	<ol style="list-style-type: none"> 1. Panin Bank 2. BCA 3. Bank Universal 4. Bank Mandiri 5. Bank Internasional Indonesia - BII (Sinar Mas Group)

APP/SMG's economic crisis came to a head with the beginning of the Asia economic crisis - especially in Indonesia - in 1997. The company obtained US\$2.9 worth of loans in 1998 and 1999, apparently including US\$ 1.2 billion from the SMG conglomerate's own bank, Bank Internasional Indonesia (BII). By 1999, however, the company announced that it was unable to pay the interest on its debt. Share prices plummeted. BII's capital reserves were drained, triggering a governmental bail-out of BII to prevent a run on the bank by clients with BII accounts.

The debt circle between APP - SMG - BII - IBRA did not end here. The re-capitalization agreement between BII and IBRA (Indonesia's Investment Management Performance Agreement - IMPA) signed in May 28, 1999 forced the government of Indonesia to take over SMG's debt (with capital derived from the national budget which was supported by loans from World Bank as Indonesia was running a deficit budget). The government designed a debt restructuring agreement as a potential solution for the APP/SMG debt.

The initial scenario for the debt restructuring provided that the government had to confiscate SMG assets worth 145% of the total BII loan to APP, or approximately US\$ 1.9 billion. The confiscation of assets, however, had to be approved first by the three major APP creditors: Hermes (Germany), Nippon Life Insurance (Japan) and US EXIM.⁴⁸

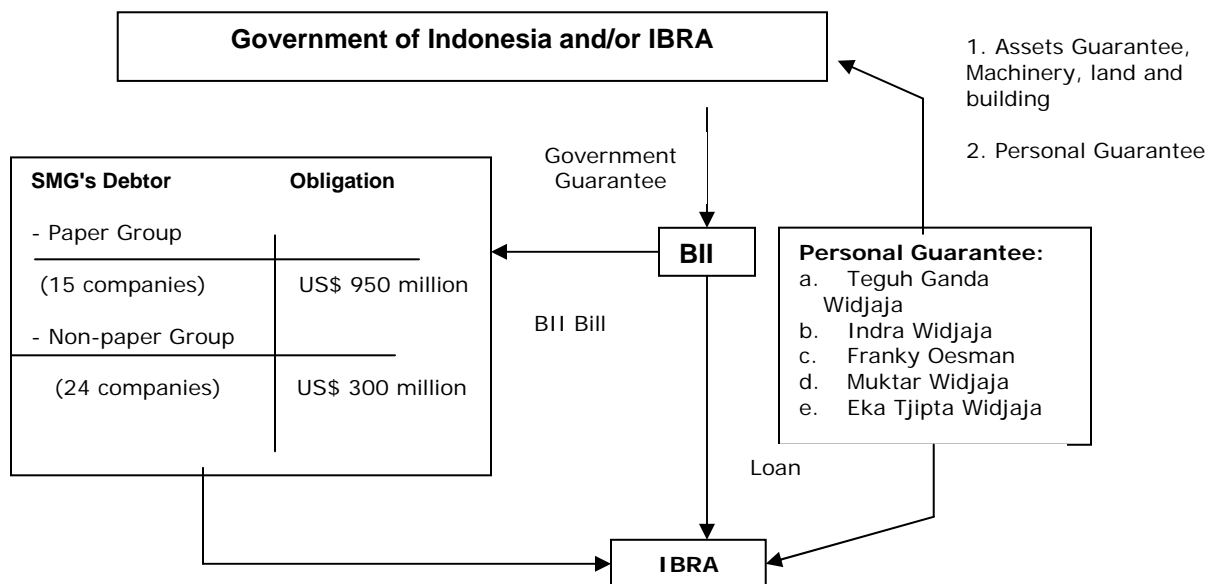
But this restructuring process was not simple. Several ECA's proposed to IBRA the development of an entity called APP Trading, to allow them to oversee and control APP's pulp trade and, also, to remove IBRA from a role in APP's problems in China. IBRA rejected this

⁴⁸ Bisnis Indonesia, 29 June 2002 : Sinar Mas Bayar US\$ 90 juta.

idea, apparently out of a suspicion that this represented an attempt by the countries proposing the establishment of APP Trading to utilize this new entity to establish their own monopoly on paper and pulp marketing on a global scale.⁴⁹

After a long debt restructuring negotiation process, IBRA finally succeeded in producing a restructuring scheme, resulting in the announcement that IBRA would assume US\$ 6.6 billion of APP's total US\$ 13.9 billion debt.⁵⁰

Settlement Agreement Scheme Between SMG and IBRA



Source: Bisnis Indonesia 12 June 2002. "Debitur non-PKPS (2): Status tak Kooperatif Membelit Sinar Mas"

APP and Environmental and Social Destruction

The problems faced by APP are not only, or even primarily, located in the financial sector. In all cases, the establishment of pulp mills and plantations in Indonesia has sparked significant social conflicts, the massive destruction of primary forest, the frequent violation of human rights and increased military repression of communities in areas surrounding mills.

APP's Indah Kiat states that it obtains close to 70% of its timber supplies from logging of the tropical forest in areas granted to the company as logging concessions – often in areas of tremendous biodiversity and vulnerability, with the rest of the supply coming from natural forests outside of the company's concessions and some plantation areas. It is widely assumed that a substantial portion of Indah Kiat's timber actually comes from illegal sources. Indah Kiat's logging operation, carried out in Riau through its subsidiary company, PT Arara Abadi, has

⁴⁹ Jawa Pos, 17 December 2002 : Ingin Monopoli Bisnis Kertas – Soal Penolakan Para Kreditor Asing Atas Restrukturisasi APP.

⁵⁰ Jawa Pos, 19 December 2002 : Prestasi Terbesar Sejarah BPPN : Utang APP USD 6.6 miliar Berhasil Direstrukturisasi

seized indigenous peoples' lands and forests (the Melayu and Sakai peoples) without compensation. At least 20,000 hectares of land was seized from local people, clearcut and planted with monoculture pulp plantations for the company's benefits. Local communities no longer have land to cultivate, and military and paramilitary operations in the area have led to significant damage, including injuries to villagers requiring hospitalization and financial loss to the communities.

In Jambi, PT Wira Karya Sakti, the raw material supplier for APP's Lontar Papyrus, also has generated problems for local communities. In September 2001, people from Kemang Putih village demanded compensation for 600 hectare of lands seized by the company in 1997. In February 2002, inhabitants of the Parit 6,7,8, 9 villages also demanded compensation for their lands, which had been zoned for agricultural use by the government. To date, none of these issues have been properly addressed and tensions are high.

In addition to the traumatic impact of forced land seizures, APP and other Indonesian pulp and paper companies cause significant problems due to environmental degradation. The companies dump their wastes into the nearest river. For example, APP's Indah Kiat is notorious for dumping waste into the Siak River which flows through local communities. The company's Lontar Papyrus operations dumps waste into the Pangabuan River. These activities have caused environmental destruction and a negative impact on local communities. PT Tjiwi Kimia apparently has had significant waste spills in the Mojokerto River impacting local communities and the livelihood of the surrounding areas. A terrible impact of the polluted air was reported in Kuta Mekar Villiage, Teluk Jambe, Karawang. There were two babies were reported killed and 115 people hospitalized because of air pollution by APP's Pindo Deli Pulp and Paper Mills.⁵¹

⁵¹ Media Indonesia, 21 Maret 2001, Masyarakat Minta Pabrik Kertas Bertanggung Jawab : Dua Bayi Tewas Hirup Gas Beracun [Community Asks Factory to take Responsibility: Two Babies Die Breathing Poison Gas]

Following the Money Trail: Unanswered Questions

Mining and Export Credit Finance in Kanaky/New Caledonia

Stephanie Fried, Ph.D.⁵² and Rick Anex⁵³
January, 2004

Background: Biodiversity and Nickel Mining in Kanaky/New Caledonia

Kanaky or New Caledonia, a country under French rule in the Southwestern Pacific, is one of the most unusual biodiversity hotspots on earth. A remnant of ancient Gondwanaland, the main island, La Grand Terre, separated from Australia some 85 million years ago and has existed in isolation from other land masses, surrounded by deep ocean trenches.⁵⁴ Kanaky contains the largest concentration of nickel laterites in the world (approximately 20% of the known reserves) and contains 75% of the reefs and lagoons under French control.⁵⁵ Due to the country's geological history, isolated location and unusual soils which are poor in nitrogen, potassium and phosphorous and rich in chromium, magnesium, nickel, iron and cobalt – elements usually toxic to plants -- over 75% of the country's plant species are endemic and are found nowhere else on earth. Some of New Caledonia's terrestrial ecosystems have rates of endemism as high as 91%.⁵⁶ Kanaky is home to extraordinary "living fossils" including 18 species of the Winteraceae family of plants which date back 120 million years, to the age of dinosaurs.⁵⁷

Surrounded by an extraordinary barrier reef --the second largest in the world, after Australia's Great Barrier Reef -- Kanaky contains one of the world's largest lagoon systems. The location of Kanaky's reefs relative to prevailing currents and temperature regimes has allowed them to remain relatively unscathed by recent massive coral bleaching events which have had profound impacts on the reefs of neighboring Australia and throughout the Pacific.⁵⁸ This little-researched reef and lagoon system – occupying close to 10 million acres (44,000 km²) -- is home to a vast number of marine species including many found nowhere else on earth.⁵⁹

Recently, marine researchers discovered over 2,700 species of marine molluscs at one Kanaky site, alone – several times the number of species than those recorded from any other

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stephf@environmentaldefense.org

⁵³ Point Zero, Noumea, New Caledonia. dakuwaqa@lagoon.nc

⁵⁴ Identified by scientists as one of the world's top ten biodiversity "hotspots" in Meyers, N, cited in "Radiation of crenobiontic gastropods on an ancient continental island: the Hemistomia-clade in New Caledonia", M. Haase and P. Bouchet, *Hydrobiologia* 367: 43 – 129. 1998

⁵⁵ French Embassy, *In Depth Review: Region: New Caledonia*. New Caledonia was an Overseas Territory of France until May 1998. After the signing of the Noumea Accord in 1999, New Caledonia became a "French Overseas Country". www.info-france-usa.org

⁵⁶ Jaffre, T, P. Bouchet, J-M Veillon, "Threatened plants of New Caledonia: Is the system of protected areas adequate?", in *Biodiversity and Conservation*, 7, 109-135 (1998).

⁵⁷ Lowry, P. "Diversity, Endemism, and Extinction in the Flora and vegetation of New Caledonia," Missouri Botanical Garden, 1996.

⁵⁸ Lough, J. "Analyses of sea surface temperatures (SSTs) in vicinity of New Caledonia (1-degree latitude x 1-degree longitude box centred on 20.5°S, 164.5°E) using data from UK Hadley Centre (1871-1999) and IGOSS-NMC (2000-2002)." Australian Institute of Marine Science, January, 2003.

⁵⁹ According to an IFRECOR (French Coral Reef Initiative) report on the state of the environment in New Caledonia, the rich marine biodiversity of New Caledonia's reef systems has "scarcely been studied by biologists." IFRECOR cites an ORSTOM report indicating potentially 15,000 marine species, but concludes, given that "many areas have never been explored...it is likely that biodiversity is even higher." IFRECOR, "State of the Environment in New Caledonia". www.environnement.gouv.fr/ifrecor.

comparable area in the world.⁶⁰ This recent discovery and other current analyses of Kanaky marine molluscs is likely to force an upward recalculation of the total number of living species on Earth.⁶¹

In January 2002, after pressure by courageous indigenous Kanak leaders and local environmentalists, the French government proposed New Caledonia's reef ecosystems for listing as a UNESCO World Heritage Site. In March, 2002, sixty-two coastal and marine scientific experts convened in Hanoi, Vietnam and concluded that the reefs of New Caledonia were of "Outstanding Universal Value" in terms of their biodiversity attributes, placing these reefs at the top of priority list for World Heritage designation in the Pacific.⁶² The UNESCO process, however, has since been blocked and the nomination has not progressed. The French Minister of Ecology and Sustainable Development has stated that France now prefers to "work with international mining companies...to ensure environmental protection" instead of seeking World Heritage status for the reefs.

Given the nickel-rich soils, and a recent "World Nickel Meeting" held in the country, large international mining companies are preparing to initiate massive mining operations on indigenous lands in this fragile island ecosystem. In addition, there are plans for the development of large-scale industrial shrimp aquaculture operations. There are indications that both mining and aquaculture companies are attempting to secure international finance, including ECA support, for their proposed ventures. This paper focuses on the provision of public finance for mining sector. The potential impact of public finance on the aquaculture sector will be examined in a later paper.

Mining and Public Finance

New Caledonia has sometimes been called the "El Dorado of Nickel" by the international mining community. However, international nickel prices have not been stable and civil unrest appears to be on the increase locally. Under conditions of clear political and commercial risk, it is likely that transnational mining companies and their investment partners are seeking methods of shifting the risk burden to the public sector, especially through the utilization of various forms of public finance and political risk insurance from ECAs in their countries of origin.

Major nickel-mining companies with plans for New Caledonia include Canada's Inco, notorious for conflicts with indigenous communities and environmental destruction in Indonesia (supported by Canadian and Japanese export credit agency finance), Canada, and Guatemala; Canada's troubled Falconbridge company, known for its non-compliance with Canadian pollution laws, now planning the construction of a massive coal power plant for its expanded Kanaky operations with hopes for a massive French subsidy totaling US\$630 million, Australia's BHP, the U.S.A.'s Phelps Dodge, and Russia's infamous Norilsk mining company,⁶³ initially

⁶⁰ Bouchet, P, P. Lozouet, P. Maestrati, V. Heros, "Assessing the magnitude of species richness in tropical marine environments: exceptionally high numbers of molluscs at a New Caledonia site", *Biological Journal of the Linnean Society*, 2002, 75, 421-436.

⁶¹ *ibid*

⁶² "World Heritage Marine Biodiversity Workshop: Filling Critical Gaps and Promoting Multi-Site Approaches to New Nominations of Tropical Coastal, Marine and Small Island Ecosystems," Hanoi, Vietnam: 25 February to 1 March, 2002. "Hanoi Report", June 17, 2002, Draft version.

⁶³ One of the original Norilsk plants in the Russian Arctic was actually built in 1940 by Inco in Norway, and was dismantled and shipped to Russia as part of reparations after World War II. "Norway helps Norilsk to fight pollution", *Reuters*, 6/21/01⁶³ Norilsk recently announced that it was abandoning plans for a joint venture in Kanaky with Argosy metals of Australia but has stated that the company "will continue to review attractive mining and metals opportunities in Russia, New Caledonia and elsewhere in the world."

established by Stalin as a gulag prison camp mine on indigenous lands in the Russian Arctic and currently regarded as the largest single source of air pollution in the world.⁶⁴

The Case of Inco: Following the Money Trail

Canada's Inco company leads the Kanaky mining race with its initiation of construction of a \$1.8 to \$2 billion nickel-cobalt mining facility in the Goro region of Kanaky's Southern Province, apparently without having secured the government permits necessary for mine operation. Inco plans to utilize an unproven, and apparently risky Pressure Acid Leach (PAL) technology powered by a coal fired plant which is underwritten, in part, by the publicly financed Agence française de développement (AFD) and which will be located in the midst of protected botanical reserves, adjacent to the fragile reef systems proposed for World Heritage Site nomination. AFD often acts as an export credit agency, providing loans for overseas projects which are supported by insurance from COFACE, France's export credit insurance agency.⁶⁵ Since February 2000, the French government has committed to the evaluation of environmental impacts as part of the acceptance process for export guarantee requests.⁶⁶

Inco built and ran an on-site pilot plant to test the company's new hydrometallurgical process. However, they have failed to release for public scrutiny any data on the pollution generated by their pilot mill, despite promises that such data would be made available.

Inco's initial plan to dump millions of tons of mining tailings containing heavy metals directly onto the reef met with protests from local environmentalists and Kanak leaders. As a result, the company announced that they would not dump all of their effluent directly into the New Caledonia reefs but would place it first in a settling pond. The company still apparently plans to dump millions of cubic meters of decanted mineral-rich liquid effluent into the coral reef

⁶⁴ Mick Lowe, Sudbury Daily News, Oct. 2001; "Ontario Turns Blind Eye to Industrial Waste Water Pollution", Natural Life Magazine #74, 1988; "Falconbridge faces Ontario pollution charges:", Reuters News Service, 30/11/00; Eugene Linden, "The Tortured Land: Siberia", Time Magazine, 1995; Paul Klebnikov, "A Company Built on Bones", Forbes Magazine, 11/6/95; Sarah Mae Brown, "Arctic city offers two guarantees: tough life, regular pay", Associated Press 10/17/98; Sibyl Diver, "Standing up to the wolf pack: Russian indigenous people fight for their survival," Presentation made at World Information Transfer International Conference on Health and Environment, 4/27/01. Norilsk

⁶⁵ In the French overseas territory of Kanaky/New Caledonia, AFD plays the same role that it plays in other export credit arrangements, in this case, making direct loans for the provision of infrastructure needed by a private sector company.

⁶⁶ According to COFACE, compliance with local regulations and standards for the protection of the environment is required for their projects. However, in a "significant number of developing and emerging countries" where the level of regulation is "still below international standards" and "the environmental legislation of the country concerned is still underdeveloped, COFACE's environmental assessment is then based on the environmental standards recognized at an international level. In accordance with the Common Approaches of the OECD, these are the 'standards developed by the relevant International Financial Institutions, e.g. the World Bank Group, Regional Development Banks or other internationally recognized environmental standards' such as those laid down by the World Health Organisation (WHO), or the World Conservation Union (IUCN)." (www.coface.com) Under COFACE rules, "the impacts considered include air quality, use of natural resources, emissions of greenhouse gases, water consumption, discharge of effluents, noise, waste management, the impact on ecosystems and biodiversity, and impacts on the socio-economic environment. Where necessary, the risk of cumulative impacts, industrial risk management and the potential impact of secondary infrastructures are also taken into account. The environmental assessment carried out by COFACE concerns the whole project of which the export is part, not just the exported goods. This is one of the important features of the OECD Common Approaches. It is justified by the reputational risk carried by COFACE and the exporter, which goes beyond the export alone."⁶⁶

www.coface.com on 1/10/04

ecosystem at the Havannah Passage, which marks the northern limit of the country's largest coral reserve, the 16,000 hectare Yves Merlet Special Reserve, created in 1970. There is concern that the liquid will contain significant heavy metal pollutants, including manganese and hexavalent chromium. This mine presents a tremendous threat to marine biodiversity and to communities dependent on near-shore subsistence fishery resources.

In addition, despite U.N. resolution 35/118 which "urges member states to prevent the systematic influx of outside immigrants and settlers" in territories such as Kanaky, Inco apparently plans to import 2,000 Filipino laborers on a revolving basis as a low-cost, factory construction crew.⁶⁷

In 2001, Inco appointed Pierre Alla to direct their Goro mine, coming directly from scandal-ridden Pam Lyonnaise Jaya in Indonesia.⁶⁸ New Caledonia has proposed the granting of a 15-year, 100% tax holiday, followed by a 5-year 50% tax holiday for the company.

Flawed Inco Environmental Impact Statement Linked to Disbursement of French Finance

As part of the process of applying for the Goro Nickel mine operating permit, it was necessary for Inco to provide an Environmental Impact Assessment (EIA) to the New Caledonia government. The EIA was extraordinarily weak and was harshly criticized by scientists, environmentalists and Kanak leaders as completely inadequate and lacking in credibility.⁶⁹

In March 2002, INERIS, a French government research agency, submitted a proposal to conduct a "critical analysis" of environmental risks associated with the proposed mining Goro Nickel operation.⁷⁰ Inco paid INERIS to conduct the evaluation and the agency proposed to limit its analysis only to those subjects raised by the company in its EIA. The Goro Nickel assessment barely mentioned the potential environmental impacts -- including acid rain, the clearing of forests for electricity lines and infrastructure -- of building and operating a coal-fired power plant in the middle of protected botanical reserves containing some of the only known populations of certain species on the verge of extinction.

One day after the INERIS proposal had been submitted, the publicly funded French Development Agency (Agence française de développement, AFD) signed a 7.5 million euro

⁶⁷ This is apparently in contravention of United Nations Resolution 35/118, "Plan of Action for the Full Implementation of the Declaration on the Granting of Independence to Colonial Countries and Peoples" which states that, "Member States shall adopt the necessary measures to discourage or prevent the systematic influx of outside immigrants and settlers into Territories under colonial domination, which disrupts the demographic composition of those Territories and may constitute a major obstacle to the genuine exercise of the right to self-determination and independence by the people of those Territories."

⁶⁸ Pam Lyonnaise Jaya was well known for its partnership with notorious Suharto crony financier, Liem Sioe Liong, in a "privatization" bid for control of Jakarta's water supply and their plan to raise immediately raise urban water fees by an average of 25%. The "privatization" of the entire Jakarta urban water supply to two Suharto-linked joint ventures came on the heels of a six years of a deeply flawed \$190 million World Bank program to upgrade the Jakarta water system. Post-Suharto reformers rejected the privatization contracts signed under conditions of staggering corruption, and Pam Lyonnaise Jaya was forced to distance itself from its disgraced Suharto crony partners.

⁶⁹ See Fried, S, "A Done Deal? Inco/Goro nickel, the Environmental Impact Assessment Process and Public Finance in Kanaky/New Caledonia: A Brief Examination of INERIS and Park Service Analyses of the Inco/Goro Nickel Mine EIA," Environmental Defense, 11/02. Scientists found that the EIA contained "unverifiable data," was "systematically favorable to the project," featured unacceptably vague, dangerously insufficient waste storage and disposal plans and that the mine and power plant would yield unacceptable, predictable extinctions of highly endangered species, all supported by public finance.

⁷⁰ INERIS, "Analyse critique du dossier de demande d'autorisation du Projet Goro Nickel: Synthèse Version en Projet Goro Nickel" by H. Baroudi, J. Bureau, (Direction des Risques Chroniques) J. Pineau (Direction Scientifique), July, 2002. p. 3/29

(approximately US\$7.5 million) "prefinancement" contract with Elyo SA for the purchase of turbines for the coal fired plant designed to supply power to the Goro Nickel operation, located in the midst of botanical reserves adjacent to fragile reef ecosystems. The contract was signed despite the fact that Goro Nickel had not yet obtained permission to operate its planned mine and despite the fact that there had been no meaningful environmental assessment of the impacts of siting the proposed coal plant in an extremely environmentally vulnerable area, containing species on the verge of extinction.⁷¹ The AFD also prepared for consideration an additional 11.4 million euro contract for power supply extension lines with Enercal.⁷²

The assessment of the Goro Nickel EIA completed by INERIS in July, 2002 underscored a number, but not all, of the staggering insufficiencies of the EIA and highlighted the significant environmental risks associated with the Goro project. However, INERIS failed to provide credible suggestions for the amelioration or avoidance of many of the potentially devastating environmental impacts and appeared poised to acquiesce to the project despite the fatal flaws in the environmental analysis. French government sources indicated that potential stumbling blocks in the French approval process for the Goro Nickel operation "could be due to the fact that the French State stresses respect for the European environment code as a pre-condition to its backing."⁷³

In August, 2002 close to 3000 angry Kanak leaders, trade union members, environmental organizations, and human rights groups held a demonstration to express their anger at a Provincial government decision to award another laterite deposit, in Prony, to Inco's Goro operation. The Collective for the Defense and Control of the Prony Heritage called it, "a grave attack on the rights and interests of the citizens of New Caledonia ... placing the sustainable development of our country in peril and radically compromising the future of our children." A similar protest occurred in September, and Inco subcontractors carried out a significant work-stoppage of the company's construction work.

In September, 2002, Goro Nickel Chair Peter Alla announced that, since the company had completed its environmental impact assessment, French public finance -- including a planned \$350 million tax subsidy -- would "be in place by the end of the year."⁷⁴

In October 2002, however, a Kanak Senate delegation accompanied by NGO representatives traveled to Paris to meet with French Presidential advisors and officials in the Ministry of Economics, Finance, and Industry, the Ministry of Ecology and Sustainable Development, and the Agence française de développement (AFD), and UNESCO.⁷⁵ Kanak Senate and NGO representatives underscored concerns about the Goro Nickel plans, the stalled UNESCO nomination, and presented a detailed analysis of the deeply flawed Inco environmental impact

⁷¹ CNC 1558 Prefinancement de la centrale électrique de Prony, "funded 28/3/2002" . www.afd.fr; Clarification re turbines provided by AFD Executive Director for Overseas Operations, Monique Barbut, October 22, 2002 in meeting at AFD office in Paris with *Senat coutumier*, Action Biosphere, Amis de la Terre and Environmental Defense. Note that Elyo SA has been affiliated with Lyonnaise des Eaux for decades and, in 1998, Suez/Lyonnaise des Eaux took over 100% of Elyo. (History of Elyo, www.elyo.fr). Pierre Alla, currently the Chairman of Goro Nickel, formerly was stationed with Lyonnaise in Jakarta, Indonesia. In post-Suharto Indonesia, Lyonnais, having partnered with Suharto tycoon, Soedono Salim/Liem Sioe Liong, was sued for illegal water concessions made under the Suharto crony system. .

⁷² "CNC 1517: Extension de la centrale thermique de Ducos en Nouvelle Calédonie", "under consideration". www.afd.fr

⁷³ "Work on Goro, New Caledonia Nickel Site Could Resume Next Week: Chairman Alla," Pacific Islands Report, 9/21/02

⁷⁴ "Work on Goro, New Caledonia Nickel Site Could Resume Next Week: Chairman Alla," Pacific Islands Report, 9/21/02.

⁷⁵ The delegation consisted of a Kanak Senator, and a Senate spokesperson, representatives of Kanaky's Action Biosphere (now PointZero), Environmental Defense's Hawai'i/Pacific Islands field office and Amis de la Terre.

assessment, including concerns raised by INERIS scientists. They underscored concerns about the role of French public finance, including AFD loans, the proposed tax subsidy, and apparently misleading documents filed by the company in its reports to the U.S. Securities and Exchange Commission.⁷⁶ The AFD's Executive Director for Overseas Operations, Monique Barbut, indicated that the AFD had only disbursed a small portion of the planned AFD finance package for the coal power plant equipment, but that this funding was not subject to any environmental standards.⁷⁷ Mme. Barbut indicated that the proposed AFD financing for the electricity lines would only occur if Goro Nickel met environmental conditions, including international and French standards. Advisors to the Ministry of Economy, Finance and Industry (MinEFI) assured the delegation that the proposed \$350 million Inco tax "*defiscalisation*" subsidy would not be finalized unless the Ministry of Ecology and Sustainable Development had examined and accepted the company's EIA and the INERIS report and recommendations.

In November 2002, immediately after the Kanak Senate and NGO delegation left Paris, INERIS officials flew to New Caledonia to attempt to convince other Kanak leaders to accept the company's flawed EIA and the proposed INERIS "solutions," apparently to ensure that the \$350 million finance package could be rapidly finalized. The Kanak leaders refused, the French government did not sign the finance package, and within two weeks Inco announced that it was ceasing Kanaky operations for an undetermined period of time. The company sent home the Filipino laborers that they had brought into the country for mine construction and dismantled their sub-contracting agreements. The company's press release indicated that they had run into sudden, unexpected cost overruns of up to 45% and that they "did not expect to finalize the terms" of the \$350 million tax subsidy but would attempt "to continue pursuing this financing program, if available."⁷⁸

In December 2003, after having dismissed the international consortium comprising Bechtel, (United States) Technip, (France) and Hatch (Canada), Inco announced a new partnership with Bermuda and U.S.-based Foster Wheeler and Canada's SNC Lavalin for the construction of the mine.⁷⁹ On December 26, 2003, an administrative court cancelled Goro Nickel's Prony nickel prospecting license as a result of a suit filed by opposition political parties, competitor nickel mining companies and traditional chiefs.⁸⁰ Four days later, strongman and head of the Southern Province, Jacques Lafleur, ordered Inco's Prony prospecting permit re-instated.

The Cost of Activism

An Environmental Defense report circulated in November, 2002 highlighted the fact that Inco, in its 2001 annual report to the U.S. Securities and Exchange Commission, had failed to inform shareholders of material environmental risks and liabilities associated with its New Caledonia and Indonesia operations and had only set aside funds for post-mine restoration costs for its Canadian operations, totaling approximately \$315 million.⁸¹ In March 2003, the company

⁷⁶ **Fried, S.G. "A Done Deal? Inco/Goro nickel, the Environmental Impact Assessment Process and Public finance in Kanaky/New Caledonia: A Brief examination of INERIS and Park Service analyses of the Inco/Goro Nickel Mine environmental impact assessment." October 2002 draft; Notes on Inco's \$400 Million Public Offering in the United States September, 2002**

⁷⁷ Monique Barbut, AFD Paris Office, meeting with Kanak Senat Coutumier representatives, Action Biosphere, Environmental Defense, Friends of the Earth/France, October 22, 2002.

⁷⁸ Inco, "Inco Limited to undertake comprehensive review of Goro project based upon latest cost data and trends," December 5, 2002.

⁷⁹ Pacific Island News, December 4, 2003. Wellington, New Zealand (RNZI, Dec. 4)

⁸⁰ "Nouméa court cancels nickel prospecting licence South of the main island," PACNEWS, the Pacific News Service, Asia Pulse PTE Ltd. 26 December, 2003.

⁸¹ Fried, S. *ibid.* In the SEC report, Inco estimated that the company's total liability for post-mine closure restoration costs for its worldwide operations -- which include Indonesia and New Caledonia -- was

suddenly increased its estimate of liability by \$100 million and had changed its SEC filing to reflect this, bringing its total estimate of future site restoration costs to \$415 million dollars.⁸²

In 2002, Inco informed shareholders that NGOs, community activist groups, and "the possible future independence" of Kanaky were now to be considered shareholder risks. The company's 2002 SEC statement, published in March 2003, indicated that the shutdown of the Goro Nickel operation had cost the company \$62 million, which Inco claims was offset by a gain of \$37 million on "certain forward currency contracts", leading to a loss of \$25 million in the last quarter of 2002.⁸³ The SEC filing indicates elsewhere, however, that the loss due to the Goro postponement was \$26 million.⁸⁴ In addition, the filing notes that the company suffered a net loss of \$1.48 billion in 2002 compared with earnings of \$305 million in 2001, linked to both the Goro postponement and tremendous "tax asset impairment charges of \$1,626 million, or \$8.89 per share, to reduce the carrying value of the Voisey's Bay project and certain other assets."

Environmental Standards? Finance for Inco, Falconbridge, and Other Mines

On December 17, 2003, a French government representative in Kanaky announced that France would provide a tax subsidy package of US \$230 million for the Prony coal-fired power plant designed to support the Goro Nickel operation, previously funded by loans from the AFD. An additional US \$418 million is to be provided directly for the Goro Nickel project, a substantial increase over the initial planned French government subsidy.⁸⁵ Responding to the news, Jacques Lafleur remarked, "When we know the current budgetary difficulties in France, we realize the colossal effort the government is making to insure the success of New Caledonia's metalurgical projects."⁸⁶

Interestingly enough, no information has yet been released to the public regarding the manner by which the deeply flawed Goro Nickel EIA has been accepted by the French Ministry of Environment and Sustainable Development, a prerequisite for the granting of French subsidies. Guidelines developed by France for export credit agency activities include reference to World Bank standards regarding effluent disposal and "the avoidance of environmentally sensitive sites" such as those of "vast biodiversity" and those which are "particularly important for endangered animal or plant species on the IUCN Red List."⁸⁷ Inco is reportedly seeking Export Credit Agency finance, potentially from Canada or Japan.

There are additional reports that the French government is planning \$630 million in tax breaks and "low cost funding" for the proposed expansion of the Falconbridge mine in the country's Northern Province.⁸⁸ According to Andre Dang, the president of the local company which is partnering with Falconbridge in the project, "This is a great gift."⁸⁹

Half a dozen other large companies are currently negotiating for access to Kanaky's nickel resources. Clearly a number of the proposed mega-mining operations appear to violate even the minimal environmental standards of many public financial institutions, including export credit

approximately \$315 million, of which \$290 million were likely to be costs associated with reclamation of mines and other facilities in Ontario, Canada.

⁸² Inco, "Index to Inco Limited 2002 Annual Report on Form 10-K, pg.52, March 2003.

⁸³ Inco, "Index to Inco Limited 2002 Annual Report on Form 10-K, pg.85. March, 2003.

⁸⁴ Ibid, pg 82 "\$26 million... relating to the temporary suspension of certain development activities and other actions concerning the Goro project, as discussed under "Goro Suspension Costs" and "Outlook-Goro Project"."

⁸⁵ Les Nouvelles Caledoniennes, "L'Etat prêt a porter 120 milliards CFP pour faire aboutir les projects miniers," December 17, 2003

⁸⁶ Les Echos, "L'Etat donne un important coup de pouce au nickel caledonien," January 6, 2004

⁸⁷ "Environmental Guidelines: Oil and Gas", COFACE, July, 2003.

⁸⁸ Pacific Island News, December 4, 2003. WELLINGTON, New Zealand (RNZI, Dec. 4)

⁸⁹ "Les Nouvelles Caledoniennes" December 28, 2003

agencies. Nonetheless, the role of export credit agencies, the provision of other types of public finance, the extent of due diligence carried out by private sector investors and the extent of public scrutiny are likely to be a crucial determinants of the extent to which these companies are able to secure financing for their environmentally destructive and socially disruptive plans.

Newmont Gold Company: A Nightmare for Sumbawa Island and Minahasa, Indonesia

by Rio Ismail
NADI

Newmont Nusa Tenggara on Sumbawa Island

PT Newmont Nusa Tenggara (NTT), located on Sumbawa Island in the eastern part of the Indonesian archipelago, is a subsidiary of Newmont Gold Company (NGC), the second largest mining transnational corporation in the world, headquartered in Denver, Colorado, USA. Forty-five percent of the US\$ 1.8 billion mining project is owned by NGC, 35% by Japan's Sumitomo Cooperation and 20% by the company's Indonesian partner, PT Pukuafu Indah. In addition, NTT is supported by Export Credit and Investment Insurance Agencies (ECAs) from Japan (the Japan Bank for International Cooperation (JBIC/JEXIM)) and the United States (U.S. Export Import Bank) with additional support from Germany's Kreditanstalt fuer Wiederaufbau (KfW) and a syndication of commercial banks led by Chase Bank⁹⁰.

On November 6, 1986, NTT received a mining concession license from the Indonesian government for gold, silver and copper on more than 197,000 hectares in the Batu Hijau region of Sumbawa Island. Assisted by Indonesian military, paramilitary forces and the local Indonesian bureaucracy, NTT forcibly seized community lands and forest gardens which has provided sustenance for generations. In 1996 the company started operations and utilized the waste disposal technology of submarine tailings disposal – i.e. dumping mining wastes, in this case, thought to contain arsenic and mercury, directly into the sea. NTT began to dump mine waste into Senunu Bay -- utilized by local women for gathering fish to feed their families. The company then banned access by villagers to the beach and the bay. The river which provides the source for drinking water for several villages has also been taken over by the company's gold processing operations.

Associated with the company's operations, is climate of fear and repression spread by military and paramilitary forces throughout the region which impacts not only local villagers, but also visitors, including NGOs attempting to work with local communities. For example, in 2002, a group of 10 women from villages throughout Indonesia impacted by gold mining, 13 NGO representatives, 2 medical doctors interested in testing villagers for exposure to heavy metals, and a three year old boy were set upon by armed paramilitary forces in Sumbawa Island⁹¹. While driving back from village meetings and interviews in areas apparently impacted by Newmont's waste dumping practices, the group was surrounded by a group of 16 paramilitary personnel, armed with machetes and wooden clubs. The armed men, some of whom had their faces covered, searched angrily for a local NGO leader and seized cameras, film, medical and other documentation from the group. During the attack, the leader of the paramilitary group was heard speaking English through a radio to someone. The group's vehicles were again stopped in front of NTT's local office, where the company's Community Relations officer photographed, in a threatening manner, the members of the group, some of whom were villagers living in areas impacted by Newmont's Minehasa operation. These attacks were reported to the police station in the Sumbawa Besar city, and received media attention and protests from local parliamentarians.

⁹⁰ Titi Soentoro, *The gold goes to the North and the tailings stay in the South*, a travel note for a comparative field study in the Newmont Nusa Tenggara mining area in Sumbawa, June 9-12, 2002. Soentoro was a member of the group set upon by the paramilitary in 2002.

⁹¹ *ibid*

Newmont Minahasa Raya

Similar tactics are used by the other NGC subsidiary in Indonesia, Newmont Minahasa Raya (NMR) in the northern part of Sulawesi Island. In December 1986, NMR received a 30-year mining concession license from the Indonesian government covering an area of 402,748 hectares. NMR was constructed with total investment of US\$ 220 million, with 80% of shares owned by Newmont Indonesia Limited (NIL). The remaining 20% share is owned by Indonesia's PT.Tanjung Sarapung which also owns 20% shares of PT Newmont Nusa Tenggara.

The presence of NMR started with the eviction of approximately 7,000 artisanal miners who had been operating in the region long before NMR arrived. In 1988, NMR expropriated 645 hectares of forest and lands owned by local villagers. As in the case of Sumbawa Island, a violent approach was also used in Minahasa by local bureaucracy and military led by Bakorstanasda, the regional arm of a notorious intelligence agency often utilized by the former Indonesian military dictator, Suharto. Approximately 400 landowners lost their lands. NMR utilizes submarine tailing disposal techniques to dump approximately 2000 tonnes of mercury-laden contained tailings into the ocean every day.

Impacts of Newmont Gold Company Operations in Indonesia

■ Destruction of Ecosystem and Foodchain

Mining operations have polluted the air and destroyed the soil structure, causing high erosion and sedimentation, land pollution, and loss of biodiversity. In addition, the large scale utilization of water has apparently drawn down water reserves and wells in the villages. The pollution of bays has impacted fish stocks and the ability of fisherfolk to continue to maintain their livelihoods.

Since the beginning of their operations, neither NNT nor NMR actually had obtained the permits for dumping mining waste into the sea.⁹² Dr Sonny Keraf, the former Indonesian Minister for Environment, affirmed that the waste disposal system of the Newmont companies was illegal. A temporary permit was given to the companies in July 2000⁹³ and was to have been replaced by a permanent permit if the companies could show that they had fulfilled conditions related to environmental safety. However, the Indonesian government apparently secretly provided the companies with permanent permits at the end of the Wahid government's time in office⁹⁴.

■ Accumulation of poisons in the human body

Villagers in areas near the bays impacted by Newmont's ocean tailings dumping have been suffering from unidentified health problems. Two doctors who visited Senunu Bay on Sumbawa Island (and were set upon by paramilitary forces) in June 2002 found that the type of symptoms

⁹² Explanation of the former Indonesian Minister for Environment, Dr. Sonny Keraf, as cited from the newspaper *Harian Bisnis Indonesia*, April 25, 2000.

⁹³ Press release of Indonesian Minister for Environment during the Environmental Day at July 5, 2000.

⁹⁴ There is suspicion that this permit was given in relation to the visit of Henry Kissinger to the Indonesian presidential palace short before the end of the Wahid government. Close to the end of Wahid's presidency, there was an outpouring of public pressure on the government to demand the evaluation of all mining contracts in Indonesia, with a focus on the American-owned Freeport and Newmont mines. accompanied by various protest actions against US companies which had destroyed the environment and exploited Indonesia's wealth of natural resources.

described by villagers were consistent with arsenic poisoning.⁹⁵ The same symptoms had also been experienced by villagers in the Buyat Bay area of Minahasa since 1997.

In early 2000, the results of the examinations of 20 villagers in the Buyat Bay region of Newmont's operations indicated traces of arsenic and mercury accumulated in the blood of people in their reproductive years. The concentration of arsenic at levels higher than the standard reference range (>11.0mcg/l) was found in the blood of 18 villagers. The concentration of mercury at levels greater than the reference range (>5.0 mcg/l) was found in samples from 7 women and 4 men.⁹⁶ These results have heightened concerns that the long-term impact of these toxins may be similar to the case of Minamata Bay in Japan⁹⁷ in 1925.

■ Impoverishment process

Since NTT began operations, villagers in Senunu Bay on Sumbawa Island have experienced an extraordinary level of impoverishment due to the destruction of their means for making a livelihood, including their forest gardens, river and water sources, and pollution of the bay that has apparently caused a loss of marine diversity. The creation of local jobs was promised by the company, but only approximately 60 local people are employed by NNT. Clean water is apparently provided only to NNT employees and villagers who support NNT's operations. Villagers at Buyat Bay have experienced a similar process. Their income decreased drastically since the operation of NMR. The remaining fish-catch could not be sold at the local market because people are aware that the fish come from a bay that is now heavily polluted. The loss of income and the lack of food have pushed people to do things that never dreamt of doing: village women have stolen coconuts to feed their babies and young children.

■ Injustice for women

Women appear to experience worse impacts than men as a result of gender relations within impacted families. The loss of family income has led to a lack of finance for basic education, with girls dropping out of school because, with limited funds, parents prioritize the education of their sons.⁹⁸ Women appear to suffer from tumors on their breasts, and a significant amount of miscarriage. In Buyat Bay, with the decline of the fish catch, in order to maintain their family income, women now seek work outside their homes.

An example of the impoverishment process and health problems experienced village women near Newmont's area of operations is illustrated by the case of Surtini Paputungan, who lives in the Buyat Bay area. Surtini started to suffer pain in her joints -- her whole body became numb, with incredible headaches, vision problems, hearing disorders, and speech difficulties. In 1999, she became paralyzed for about 3 months and her hair could not be touched because touch was very painful. The village clinic could not explain what was wrong with her. The doctor provided by Newmont stated that nothing was wrong with her, although a few weeks after her examination by the company doctor, a team from Newmont came to take blood-samples from Surtini and other villagers. A year later, after pressure from national and international NGOs to disclose the results of the blood examinations done in a laboratory in Santa Monica in USA, Newmont admitted that blood of the villagers was contaminated with arsenic, mercury and cyanide. Surtini tried to stop eating fish from Buyat Bay because she realized that her health was getting worse when she consumed it. She overcame the paralysis and got better, though

⁹⁵ Op.cit

⁹⁶ Results of lab analysis in Santa Monica USA in Minamata ke Minahasa, published by Walhi Sulawesi Utara, 2000.

⁹⁷ Case of pollution in the Japanese Minamata Bay in 1918 as a petrochemical company Chisso used mercury for its processing and dumped its waste to the bay.

⁹⁸ Testimonies of villagers at Buyat Bay during a discussion with YDRI, NADI and Solidaritasw Perempuan in November 2002.

the pain in her joints and headaches often came in particular after eating fish from Buyat Bay, as she had no other alternative food. As Surtini gave birth to her fourth child in September 2002, her condition was so weak, she could not produce milk. Neither could she afford to buy milk for her baby. Then she just gave her breasts to calm it down and gave the baby tea and water instead. In June 2002, Surtini met two doctors who informed her that her symptoms were commonly associated with arsenic poisoning.

Surtini was not the only case in Buyat. Fifty-one other villagers – 80% of them women—suffer from similar symptoms: constant headaches, pain in the joints, lumps throughout the body and itchiness. A blood sample analysis of 19 villagers, conducted under the auspices of two Indonesian environmental networks (Walhi and Jatam), found a high accumulation of arsenic and mercury.