

## Reform Export Credit Agencies:

# Respect Human Rights – Stop Destroying the Earth



**Export credit agencies (ECAs) provide private business with hundreds of billions of Dollars in public subsidies and guarantees annually. Yet, both the OECD and its member governments fail to tie these subsidies to strict rules of sustainability and public scrutiny. Many projects supported by ECAs cause great harm to people and the environment in affected regions. The international ECA-Watch network therefore campaigns for higher standards and greater accountability of export credit agencies.**

While the unprecedented public bail-out of major private financial institutions during the last weeks provokes wide debate about the unconditional use of public money for backing private business, scant attention is paid to the decades-long practice of providing public subsidies through export credit agencies. Most industrialized and emerging economies have at least one ECA. By providing government-backed financing, ECAs support their domestic private sector in doing business in emerging markets and developing countries. When an importer, investor or host government defaults on credit repayment, ECAs compensate the exporter for the loss and generally assign the debt to the host government. Banks are major beneficiaries of ECA guarantees and exporting corporations also gain by receiving loans at cheaper rates than without public support.

ECAs are collectively among the largest sources of public financial support for foreign corporate involvement in industrial projects in the developing world. In recent years ECAs have granted over US \$ 100 billion in financial support for large industrial and infrastructure projects, many of which are environmentally damaging, in developing countries and economies in transition. While financial market mechanisms like credit derivatives also play an increasing role in financing investment, the WTO reports that ECAs increased their business activities by more than 30 percent in the last twelve months.

ECAs from the industrialized countries coordinate their policies within the OECD *Export Credit Group (ECG)*. The ECG developed a *Recommendation on Common Approaches on Environment and Officially Supported Export Credits*. The Recommendation represents progress from the situation ten years ago, when most ECAs did not even assess the impacts of the projects they supported. Yet, the Common Approaches remain full of loopholes and do not prevent ECA support for projects with severe environmental and social impacts (see list of projects below).

Development organisations heavily criticize the counting of export credit debt cancellation as official development aid (ODA) as this severely dilutes ODA budgets. They strongly denounce that development money is used to cover the risks private sector companies consciously take.

Over many years, the ECA-Watch network has engaged in a consultation process with the ECG. In 2007 the network has decided to put the participation in further consultations on hold until ECA-Watch input on how to improve the performance of ECAs is met by a substantive response from ECAs and the ECG.

**For further information:** [www.eca-watch.org](http://www.eca-watch.org)

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### **Nigeria LNG plus – Bonny Island, Nigeria**

A Shell owned industrial complex to produce and export liquefied natural gas (LNG) has been built in Bonny Island in the Niger Delta of Nigeria. It is the largest foreign direct investment in sub-Saharan Africa, involving 4 ECAs: Atradius DSB, ECGD, SACE, US-ExIm. Local communities have been swamped by the arrival of thousands of mainly male workers from other parts of Nigeria. Through the loss of mangrove forest, land and pollution many people lost their livelihoods in fisheries and agriculture. US\$182 million in bribes were paid to secure contracts for this project. So far, the ECAs involved have taken no action to rescind the guarantees, despite such proof of bribery. <http://www.eca-watch.org/problems/corruption/index.html#Bonny>

### **Sakhalin II, Russia**

Shell's Sakhalin II Oil and Gas project in the Russian Far East is the largest integrated oil and gas project in the world, threatening the Steller's sea eagle and the critically endangered Western Gray Whales; damaging hundreds of wild salmon-bearing rivers; harming fishing and indigenous communities and escalating local inflation. Chronic violations of environmental policies contributed to the end of consideration by the European Bank for Reconstruction and Development the US and UK export credit agencies. However, in 2008, Japan's ECA (JBIC), three private Japanese banks and three European private banks provided an estimated \$5 billion in financing. [www.pacificenvironment.org](http://www.pacificenvironment.org)

### **ENCE pulpmill, Uruguay**

Since October 2007, the Spanish ECA (CESCE) has been evaluating the support for Spanish Company's ENCE 's pulpmill in Uruguay. The project is considered as a high environmental impact one. A large coalition of Uruguayan, Argentinean and Spanish organizations are working to stop the project. [http://www.odg.cat/documents/novetats/pdf\\_Carta\\_Gobierno\\_Esp.pdf](http://www.odg.cat/documents/novetats/pdf_Carta_Gobierno_Esp.pdf).

### **Nam Theun 2 Hydropower Plant, Laos**

Nam Theun 2 (NT2) in central Laos is a \$1.45 billion project designed for power export to Thailand. NT 2 is another example of a two-speed infrastructure project in which social and environmental programs fall behind while construction proceeds on schedule. World Bank and Asian Development Bank resettlement and disclosure policies have been violated, along with provisions of the Concession Agreement. The failure to ensure that promises to villagers are met in a timely manner raises doubts about whether commitments will be met to use NT 2's revenues to benefit the poor. ECAs from France, Sweden, Norway and Thailand back the project. <http://www.internationalrivers.org/en/southeast-asia/laos/nam-theun-2>

### **Ilisu Dam Project, Turkey**

The Ilisu hydropower project on the Tigris River in Southeast Turkey will displace over 55,000 people, mainly Kurds, destroy invaluable cultural heritage and damage an irreplaceable ecosystem, while also exacerbating water conflict in the region. It has met strong resistance by the affected

population. Conditions attached to the guarantees granted by the German, Austrian and Swiss ECAs have been widely ignored by the Turkish authorities, triggering the start of an exit procedure by the ECAs. It is completely open however as to whether the ECAs will actually withdraw.

[www.stopilisu.com](http://www.stopilisu.com)

### **BTC Oil Pipeline**

The 1,760 kilometre-long BTC pipeline runs from Baku in Azerbaijan, through Georgia to a new marine terminal at Ceyhan in Turkey. BTC Co. is led by the British oil multinational BP. Widespread cracking of the coating has occurred. Construction of the pipeline was characterized by inadequate consultation, disputes over compensation, allegations of corruption, and intimidation of critics. Although the project passes through a number of conflict zones, the risks that it would exacerbate tensions were not adequately assessed. In 2008, the pipeline was sabotaged in Turkey and was bombed by Russian warplanes in the recent conflict between Russia and Georgia. The project is backed by export credit support from Japan, Britain, France, Germany and the USA.

### **Arms and Corruption**

Support for arms deals comprises a considerable part of ECA-backed business. Such support has often been for arms deals to countries with poor human rights records and many of the deals have been tainted by allegations of corruption. In the UK, a major recipient of ECGD support has been BAE Systems, currently under investigation by the UK police for bribery in a number of ECGD-backed deals. In 2006, the UK terminated an investigation into allegations of corruption in BAE's dealings in Saudi Arabia. A recent report by the OECD's Working Group on Bribery records that the UK police has supplied the ECGD with evidence of bribery-related fraudulent misrepresentations by BAE in respect of the contracts – but that the ECGD has apparently taken no action. <http://www.caat.org.uk/>

### **Nuclear Power Plants**

The French ECA Coface granted a record guarantee of 570 millions Euros for the first nuclear reactor to be built in Western Europe after more than a decade: the EPR Olkiluoto 3 in Finland. The project is a prototype and even during construction it has been plagued by a series of safety problems. Many more nuclear reactors are expected to receive ECA support in the future. The US, Japan and France are currently pushing for better export credit terms for the nuclear industry within the OECD.

### **Coal Fired Power Plants**

An increasing number of coal fired power plants are financed by ECAs with no consideration of their climate impacts. Between 2002 and 2005 ECAs granted at least US\$ 2 bn for coal fired power plants. The most recent project list for the Japanese ECA JBIC - covering just a seven week period in autumn 2008 - lists already two new coal fired power plants that JBIC plans to finance in Indonesia and Vietnam.