COVER STORY

Exporting Destruction

With U.S. backing, the G8 Summit in July ended with a proclamation to finally confront the environmental devastation caused by the "export credit agencies" of wealthy countries. This is the story of how most of these institutions operate under a cloak of secrecy with a mandate to promote domestic businesses abroad at almost any social cost

BRUCE RICH

Imagine the following as a screenplay for one of those gothic fantasy movies set in a dystopic future: The industrialized countries decide to create ruthless agencies whose only goal is national economic aggrandizement. These agencies keep most information on their activities secret — not just from the public that supports them through their taxes, but from their own national legislatures and ministries. Their job is to enrich their countries' corporations by making it easier for poor countries to buy their products and services, regardless of any environmental and social disruption such purchases may cause. For example, they support nuclear power plants in countries that can't manage them and massive arms purchases in strife-torn regions. They support huge, environmentally disastrous construction projects that displace communities and often end up costing more than they are worth. They support half of all the new energy-intensive infrastructure being built in the developing world, with almost total disregard for the pollution and climate impacts. And to facilitate all the above, they subsidize billions of dollars of bribes annually, undermining democracy and development by corrupting governments and businesses in poor countries.

Unfortunately, this is no fantasy. It is an accurate description of the typical "export credit agency." ECAs are publicly funded financial institutions operated by most of the richer industrialized nations. Collectively, ECAs have become one of the key players in the global economy, annually pouring twice as much money into the poor nations than the total of all development aid worldwide, both bilateral and multilateral, including U.N. agencies and the World Bank. But they are not foreign assistance agencies. They are domestic assistance agencies. Their mission is to boost the overseas sales of their countries' multinational corporations. Their method is to provide loans and guarantees so that poor countries can buy the products and services of the multinationals. They have been so successful that ECAs now account for eight percent of world exports — a figure that is rising.

But unlike bilateral development agencies and the international development funds, most of which now screen to minimize their potential for environmental and social disruption, these agencies don't even care. They often flout international environmental treaties and mandates for sustainable development, along with the domestic environmental laws of the developing countries in which they do business. It is no exaggeration to state that ECAs are rogue agencies that make the World Bank, the International Monetary Fund, and even the World Trade Organization seem like models of benevolence and accountability.

ECAs are now the world's biggest public financial institutions. Their longer-term loans and guarantees total over $100 billion annually, of which, according to the World Bank, about half goes to support the big infrastructure projects in developing countries that used to give the international assistance agencies a deservedly bad reputation for promoting environmental destruction, before they began to reform their practices. In effect, ECAs have taken over the funding of projects that the world community has rejected as intrinsically inimical to the well-being of developing countries. And their mandate is not the kind of growth through globalism trumpeted by free trade advocates as the best route to economic and social improvement for developing nations. It is solely to promote, through subsidized exports, the economic welfare of their home country. In fact, what has really occurred over the past decade of ECA ascendancy has not been the triumph of free markets, but what can be better characterized as the New Mercantilism — the revival of alliances between national governments and large corporations to secure new markets in the face of growing international competition, no matter what the consequences.

By definition, export credit agencies subsidize transactions that corporations would not undertake, and private banks would not support, because of financial or political risk. The assumption of risk by rich country governments for private-sector investments is not what classical economics would dictate — it is an archetypal interference in the workings of the free market. As a result, the actions of ECAs have frequently led to economically perverse results with important environmental consequences. Indonesia provides a classic example, particularly because of its shaky, corrupt government and widespread civil strife. In the face of this risk, ECAs have subsidized excess capacity in key sectors such as pulp production, which in turn causes deforestation of tropical forests and pollution from poorly managed mills. Thus, the environment is damaged, the economy distorted, and public pressure for democratic reforms undermined.

> ***The expansion of export credit agencies over the past decade has not been the triumph of free markets, but what can be better characterized as the New Mercantilism***

The net result is an enormous policy joke at the expense of the world's poor: the rich nations solemnly sign environmental conventions and clothe themselves in politically correct rhetoric through their taxpayer supported bilateral aid agencies and through multilateral institutions like the World Bank and United Nations Development Program. But their ECAs not only ignore the policies and goals of aid agencies and international environmental agreements, they actually work at cross purposes with them. The rich countries preach free markets and increased transparency to developing nations, while their ECAs work surreptitiously to subsidize trade — they are excluded from coverage by the World Trade Organization — and under the pretext of commercial confidentiality, most refuse to release the most basic information on their activities.

Fortunately, a global grassroots movement is growing in both ECA donor and recipient countries to protest their irresponsibility. Indonesia has already seen mass marches of affected villagers. There have been huge protests at the site of the proposed Maheswhar Dam on the Narmada River in India, which if financed by the German ECA will displace over 30,000 villagers. Last spring, some 350 citizens groups from 46 countries joined in endorsing a campaign statement, the Jakarta Declaration, which calls for far-reaching reform of the ECAs and a halt to their violation of basic social, environmental, and human rights norms.

Ironically, while the United States has been a laggard in many international environmental arenas, it has taken the lead over the past several years in trying to push other industrialized nations into agreeing on common minimal environmental standards and guidelines for ECAs. This effort has turned out to be extremely frustrating and difficult, meeting continued opposition even, in fact especially, from governments such as France and Germany, in both of which the Green Party is part of the governing coalition. A turning point may have occurred in July when, at President Clinton's behest, the Group of Eight concluded their annual economic summit by issuing a communique that recognizes that "export credit policies may have very significant environmental impacts" and commits its members "to develop common environmental guidelines, drawing on relevant multilateral development bank experience, for export credit agencies" in time for their summit next year. The United Kingdom also got the G8 to press members of the Organization for Economic Cooperation and Development to stop export credits from being used to help poor countries buy arms and other "non-productive" items.

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The mandate of ECAs is simple: provide publicly subsidized loans, and government-backed guarantees of private bank loans, to buyers of goods and services, mainly in poor countries, provided by businesses of the rich country. Over the past decade ECAs increasingly have become major players — the major international public player — in project finance in developing countries.

Many countries match their ECAs with public investment insurance agencies to provide political and financial risk insurance to their domestic multinationals for these overseas ventures. Examples of such agencies include the U.S. Overseas Private Investment Corporation and the Japan Ministry of International Trade and Industry Investment Insurance Department (the legendary MITI). In some countries both functions — export lending and guarantees, and investment insurance — are combined in the same agency.

The oldest ECA is probably the United Kingdom's Export Credits Guarantee Department, founded after World War I to promote British exports. The U.S. Export-Import Bank was founded in 1934. Most of the others, such as the Canadian Export Development Corporation, French COFACE, German Hermes Guarantee, Italian SACE, and Japanese Export-Import Bank (now part of the Japan Bank for International Cooperation), were established after World War II. Each institution has a unique mix of loans and loan guarantees and (sometimes) risk insurance. The largest ones, such as the ECAs of Japan and the United States, in recent years have been approving new loans and guarantees annually averaging $15 billion apiece.

Private sector overseas investment is less 'private' and 'free market' than purported. Much has been indirectly or directly subsidized by national governments through their **ECAs**

Sadly, and perversely, the rise of ECAs is occurring at the same time as a general decline in most bilateral and multilateral development assistance. Annual new commitments of ECA longer-term (more than one year) officially supported export credits increased over four-fold during the 1990s, from about $26 billion in 1988 to $105 billion in 1996. In addition, ECAs annually approve more than $300 billion in short-term trade finance; that is, loans and loan guarantees for periods of less than 12 months to insure and/or guarantee sales by companies (and their private banks) to purchasers abroad. During the same period, official development assistance to governments in developing countries and the former Soviet bloc decreased, from $57 billion in 1990 to $39 billion in 1997. In 1996 ECA transactions accounted for 24 percent of the total indebtedness of all developing countries, and for 56 percent of their official debt — far exceeding the combined debt owed to the World Bank and the International Monetary Fund.

These figures show with brutal clarity that the increased global competitiveness of the 1990s has dramatically reinforced the economic selfishness of rich industrialized nations. Economic globalization has produced the phenomenon of industrialized countries forcing cuts in domestic social programs and safety nets in the name of increased global competitiveness, while (also in the name of global competitiveness) increasing government subsidies for corporations engaged in foreign trade and investment.

Indeed, the reality of the ECAs' growing financial importance provides a thought provoking contrast to much of the official government rhetoric concerning world economic trends over the past decade, which has emphasized the primacy of an independent private sector and free markets. For developing countries in particular, the talk of the finance ministries of the industrialized countries has emphasized how private sector financial flows, particularly foreign direct investment, have overwhelmed and even supplanted development assistance. In reality, however, these private sector flows are less "private" and "free market" oriented than the official pronouncements purport. Much of this private sector finance — and most big private direct investment in developing nations — has been indirectly or directly subsidized from ECAs, and to a lesser extent from the rapidly growing private sector affiliates of the

World Bank, the International Finance Corporation and the Multilateral Guarantee Agency.

ECAs are now the single largest public financiers of large-scale infrastructure projects in the developing world. According to the World Bank, about half of all new ECA longer-term commitments in recent years (over $50 billion annually) has gone to support large infrastructure projects in power generation, telecommunications, and transportation. A significant number of these projects involve very serious environmental and social impacts, particularly large dams, coal and nuclear power plants, mining projects, roads in both pristine and densely populated areas, oil pipelines, chemical and other industrial facilities, logging and plantation schemes, to name a few. To look at Indonesia again as a typical country, ECA credits account for 24 percent of the country's debt — about $28 billion — and are concentrated in the power sector (building large coal-fired plants) and paper and pulp sector (constructing huge paper mills and conducting massive forestry operations to feed them).

The problem with the rich country governments' export credit agencies is that they have no development mandate whatsoever, not to speak of an environmental mandate

Export credit agencies are publicly supported institutions, and thus should complement, rather than undermine, other international and foreign policy objectives of their governments. But ECAs exist in relatively insulated enclaves within their governments. They usually report only to one agency, typically the trade, economics, or finance ministry, while operating without effective oversight by the rest of the government — including the national legislature — thus enjoying the benefits of taxpayer support without the associated accountability of other agencies in democratic countries. The lack of transparency and accountability is a major factor in the ECAs' disregard for the environmental and social consequences of their activities.

Unfortunately, reforms in this area such as those underway by the U.S. Ex-Im Bank and a few other ECAs, while a start, are, in the absence of common standards and guidelines, in many cases futile. The lack of harmonization among ECA policies has created a race to the bottom among companies competing for export credits. The very environmental, financial, and political risks that strong policies are supposed to protect against are reinforced when a project rejected by an ECA with high environmental standards is then financed by a competing ECA with lower or nonexistent policies.

The support of the Three Gorges Dam on the Yangtze River in China is a case in point. In 1996, several ECAs approved financing for the project after both the World Bank and the U.S. Ex-Im Bank rejected it on environmental grounds. The largest construction project on earth, the dam will displace over a million and a half people. Despite large-scale corruption, massive construction flaws, and the protests of Chinese scientists, engineers, and journalists, the ECAs of Canada, Germany, Sweden, and Switzerland, among others, are supporting the project with hundreds of millions of dollars of export loans and guarantees. In addition, resettlement is in a shambles because officials have embezzled $60 million from the resettlement budget.

The lack of consistent minimum environmental assessment criteria among bilateral export credit and investment insurance agencies is also undermining the commitments to sustainable development of leading exporting nations under the Climate Convention, the Biodiversity Convention, and Agenda 21. For example, ECAs and national investment insurance agencies are supporting large scale expansion of fossil fuel power production without any weighing of the global climate impacts — nearly half of all new trade and project finance in the developing world in energy intensive sectors is being financed with, and because of, ECA support.

The OECD has begun to recognize the problem of ECA-financed destruction, which was cited in a 1996 assessment of ECA practices by its Development Assistance Committee.

Separately, the ECAs meet semi-annually in the OECD's Trade Directorate committee called the Working Party on Export Credits and Credit Guarantees — for short, the Working Party. Incredibly, at the same time the Development Assistance Committee report was issued, the Working Party members challenged its U.S. representatives to cite any examples where other ECAs' lack of environmental guidelines had caused any problems.

Loans and guarantees by ECAs distort normal market allocations of supply and demand — and risk — encouraging in some countries massive overcapitalization in environmentally destructive sectors. For example, ECAs have kept the Canadian, French, German, and U.S. nuclear power construction industry on life support through subsidizing reactor exports to developing and former communist countries. In contrast, the World Bank refuses, and has always refused, to support nuclear power on purely economic grounds — it is a bad investment.

Export credit agencies are publicly supported institutions, and thus should complement, rather than undermine, other international and foreign policy objectives of their governments

Another example is the problem of Indonesia's pulp and paper sector mentioned earlier and a similar problem in its power generation industry. To flesh out these examples: In the 1990s, ECAs from Canada, Denmark, Finland, Germany, Japan, and Sweden financed three giant pulp plants in Sumatra, involving over $4 billion in investment. The result was both overcapacity in relation to international demand, and immense pressures to supply the mills with wood. Failure to develop plantations to supply the mills at the same pace as their consumption means that between half and two-thirds of the wood supply is coming from illegal clear-cutting of natural forests in one of the world's great biodiversity preserves. In turn, this supply increase creates downward pressures in prices, which then further increases pressures for unsustainable practices.

The direct community impacts are disastrous. Built on rivers, the mills dump effluents that would be illegal in rich countries, poisoning tens of thousands of people nearby. The children of the villagers living downstream are covered with ulcerous scabs and sores from being washed in the rivers, the only water supply for most remote communities in Sumatra. Ancestral lands of indigenous peoples have been seized for construction of the mills and plantations without compensation.

In the case of power generation, the coal-fired Paiton I and II plants in Java involved over $3.7 billion in investment covered by loans and guarantees from the German, Japanese, and U.S. ECAs, among others. Yet there is insufficient demand for the electricity. The Indonesian government is now threatening to renege on a power purchase agreement between the state power utility and the Paiton plant and its western investors. The power utility alleges that the purchase agreement was negotiated under the corrupt, uncompetitive cronyism of the deposed Suharto regime.

Mining is another major sector where ECA negligence is rife, mainly on the part of the Australian and Canadian ECAs, since overseas mining investments are important export sectors for both countries. One of the more notorious examples occurred in 1995 in Guyana, where a tailings dam from the huge Canadian-financed Omai gold mine burst. One billion gallons of cyanide-laced waste spilled into the country's most important river, killing millions of fish, endangering human lives, and threatening the water supply of the country's capital. The United Nations Development Program criticized the lack of environmental monitoring in the project, and lawsuits ensuing from the spill continue to this day.

The United States is an exception, since the Export-Import Bank and Overseas Private Investment Corporation have an environmental mandate, in large part as a result of lobbying by U.S. environmental groups over the years. OPIC also has a development mandate, because of its origin in the U.S. Agency for International Development. The Ex-Im Bank is required by law to conduct environmental assessments for sensitive projects, and in comparison with other ECAs is much more transparent. For instance, it posts lists of upcoming projects that require environmental assessments on its Web site. Some European ECAs will not even disclose descriptions of individual projects and deals they have already approved, making it difficult to have a clear idea of their activities.

The Clinton administration began trying to promote an agreement on minimal common environmental standards for ECAs in the Working Party in 1995, rightly fearing that the strengthening of environmental assessment procedures for the Ex-Im Bank mandated by Congress in 1992 would put it at a competitive disadvantage. The Three Gorges Dam example mentioned above — and a backlash in the U.S. Congress when Ex-Im stood by its environmental standards, which spurred a coalition led by Senator Frank Murkowski (R-Alaska) to undermine the bank's environmental procedures rather than potentially damage U.S. business interests — has only reinforced this concern. With the recent G8 reform initiatives, however, real change in ECA practices may at long last be in prospect.

ECAs exist in relatively insulated enclaves within their own governments, enjoying the benefits of taxpayer support without the full accountability and responsibilities of related agencies

The lack of transparency of most ECAs is a major obstacle to reform. The inveterate secrecy of ECAs is not only vis-a-vis the public, but also toward their own national legislatures and ministries within their governments. These ministries include the environment and foreign affairs agencies, but sometimes even the ministry to which the ECA reports. Moreover, when ECAs meet in the Working Party, the sessions are mostly closed, and little information is released on the substance of the discussions or the results.

Academic researchers who have attempted to obtain the most basic information from the ECAs individually, or from the staff of the OECD, have been rebuffed. In 1998 the Yale University Environmental Clinic, a joint undertaking of Yale Law School and the Yale School of Forestry and Environmental Studies, attempted to do a comparative study of ECA investments and procedures. In a number of cases national ECA representatives simply refused to reply, despite follow-up telephone calls and letters. More recently MIT researchers were rebuffed by OECD staff when they attempted to obtain the most basic information on the portfolios and lending patterns of OECD members.

The ECAs go so far as to undertake secret negotiations among one another without notifying their own governments. To cite one recent example, last winter the Trade and Industry Committee in the U.K. House of Commons condemned the "deplorable and counter-productive lack of transparency in the way documentation has been kept from the public on the proposed Ilisu Dam," a controversial project in Turkey under consideration by the U.K. ECA and others. The committee noted that several ECAs met and discussed in secrecy proposals for funding the project for nearly a year before the U.K. trade ministry, which theoretically oversees the ECA, even became aware of the project.

Indeed, the Ilisu case provides another illuminating example of the propensity of ECAs to finance ill-conceived schemes no public agency would consider, and no private bank would finance without taxpayer guarantees. The dam will be built on the Tigris River in eastern Turkey, despite the protests of over 25,000 Kurds who will be displaced, and without adequate compensation. It will inundate one of the most important archeological sites in Anatolia, and violates five different World Bank environmental and social polices on 18 different counts. The Syrian government has protested to the United Kingdom about its participation, pointing out that Turkey has refused to sign a U.N. convention concerning equitable water use on international rivers like the Tigris.

The massive involvement of major European ECAs in arms exports is another aspect of their operations that follows logically from the "exports uber alles" approach. ECA arms exports have become a campaign target for church and human rights groups in Europe, who rightfully see the billions that their governments lavish annually to subsidize such purchases as an international tragedy. Thirty percent of the U.K. ECA's budget in the 1990s and a third of export credits granted by France's ECA went to subsidize arms exports. In 1999 the Indonesian military used British Aerospace fighters purchased with U.K. ECA credits over East Timor, leading to outraged protests in Parliament. The Indonesian government had bought the aircraft after giving express promises that they would not be used for domestic repression. As U.N. forces prepared to move into East Timor, the Indonesians defaulted on $250 million worth of the loans used to purchase the aircraft, and the private U.K. banks pressed the ECA to pay them immediately. The $250 million is only a fraction of nearly $1.3 billion of this ECA's support of arms sales to Indonesia since the mid 1990s.

Not to be outdone, Germany's ECA offered $407 million in export guarantees to catalyze a $1-billion purchase of 39 obsolete East German PT boats. The Suharto government closed several newspapers and threw students into prison for protesting the purchase. Even Indonesian generals protested the waste of money for obsolete technology, but the deal went through because the science and technology minister at the time was a personal friend of German Chancellor Helmut Kohl. Kohl also attempted to sell an obsolete fleet of East German diesel submarines to the Indonesians, backed by another $387.3 million in ECA guarantees, but the deal fell through.

The corruption involved in the PT boat transaction is but a small example of ECA ethical abuses. Given the lack of transparency surrounding ECA operations, it comes as no surprise that they are probably the single biggest official financers of bribes and other corruption in the developing world. Transparency International has published a working paper and other documents noting that as a matter of course major European ECAs in effect have systematically insured and guaranteed financial transactions with corruption and bribery. The group estimates that corruption costs amount to 10 to 20 percent of many transactions. Transparency notes that to date the ECAs have done nothing to address this issue, despite the entering into force of the OECD's anti-bribery convention in early 1999.

This witch's brew of social and environmental irresponsibility would not be complete without nuclear power, which for years has been one of the biggest export finance sectors for Canada, France, Germany, and the United States. For two decades virtually no new nuclear power plants have been built in any of these countries. In defiance of the economic (and environmental) logic that caused this stoppage, their ECAs have kept the builders alive by financing lucrative export deals for new and refurbished nuclear plants in the developing world and former communist states.

The massive involvement of major European ECAs in the export of advanced arms is another aspect of their operations that follows logically from the "exports uber alles" approach

In 1996, Canada's ECA supported the purchase and construction of two nuclear reactors by China, in 1997 two proposed reactors to Turkey, and in 1998 a billion dollars of additional financing for the completion of the Cernavoda nuclear reactor in Romania. The Cernavoda plant was financed by earlier export credits and left half finished under the communist Ceaucescu regime after being partly constructed by conscripted forced labor living in unheated barracks with limited food rations. Even more disturbing, Germany's Green Party leader, Vice-Chancellor and Foreign Minister Joscka Fischer, approved in April export credits for a new nuclear plant to be built in China — despite the Greens' platform against nuclear power. Clearly, the New Mercantilism is winning converts.

The importance of the communique issued at the end of the G8 summit in July cannot be overstated. The G8 has demanded that the Working Party produce environmental guidelines in time for the 2001 summit. There is precedent for such agreement within the

Working Party, which over the past twenty years has reached detailed technical agreements on common minimum interest rates and fees for their services, as well as agreement on the extent they can link development aid grants to export credits. Together, these accords have become known as the OECD Arrangement. And, as mentioned earlier, since 1995 the United States has attempted to promote discussions in the Working Party on common environmental standards.

But for the communique to succeed in producing real reform in ECA policies and behavior, the Working Party will first have to reform itself. The atmosphere within the Working Party is often characterized by mistrust, competitiveness, and suspicions that other ECAs are attempting to secure economic advantages. The U.S. environmental proposals for the Ex-Im Bank were seen in this light, and in fact for two years some countries argued that environmental considerations were not even a legitimate subject of discussion for the Working Party.

> ***In the 1990s, thirty percent of the United Kingdom ECA's budget and a third of export credits granted by France's ECA went to subsidize arms exports to poor countries***

The possibility of reform began three years ago when, with prompting from some U.S. environmental non-governmental organizations, the Clinton administration succeeded in getting other governments to recognize the issue, urging "progress" in the OECD on environmental standards for ECAs in the 1997 G8 Summit communique. In the 1999 summit in Cologne, U.S. negotiators achieved a breakthrough, getting the G8 heads of state to "work within the OECD toward common environmental guidelines for export finance agencies." With the July 2000 communique "work . . . toward" becomes "we affirm our commitment to develop common environmental guidelines, drawing on [multilateral development bank] experience, for Export Credit Agencies by the 2001 Summit."

Meanwhile, over the past year a number of ECAs — from Canada, France, Germany, Italy, Japan, and Sweden — have promulgated the beginnings of environmental assessment procedures and new environmental guidelines by themselves. All of these procedures, however, fall far short of minimal good practice in environmental assessment and often amount to little more than window dressing. Transparency and public consultation are notably lacking. The new Canadian procedures, for example, leave total discretion as to what environmental standards to apply with ECA officials. Moreover, the key problem is to agree on common guidelines and standards for all ECAs to avoid the race to the bottom among corporations and recipient countries.

At root, the policy question for the international community is whether ECAs should even exist. Proponents of the free market argue that these organizations create market distortions. Environmental and social advocates see them as undermining their governments' commitments to supporting sustainable development and human rights. But simply abolishing them — as the respected British magazine *The Economist* advocated several years ago — is analogous to advocating the abolition of armies; in a climate of greater international competition for markets and exports, no one wants to disarm unilaterally.

One would think that the existence of such huge export subsidies on the part of major governments would be a direct contravention of the WTO, but the Uruguay Round explicitly exempts the major industrialized country ECAs that have agreed to common minimal premiums and interest rates in the OECD Arrangement. In fact, the WTO requires as a condition for membership that countries that are not parties to the OECD Arrangement phase out their export credits. Thus merely agreeing to financial norms exempts ECAs from WTO enforcement, while leaving them free to conduct their taxpayer subsidized depredations. The WTO exemption, commonly refereed to as the "carve out," is an apotheosis of the free-market hypocrisy of the rich OECD countries.

More disturbing, the enormous policy

perversity that the practices of ECAs embody raises troubling questions about the coherence and effectiveness of international environmental, labor, human rights, and other social agreements, as well as about the political will of the major industrialized countries to honor these agreements. The OECD appears in this saga as a rather dysfunctional body. For years its Development Assistance Committee, as well as its Environment Directorate, have been working on common best practices and procedures for environmental assessment. Yet the Working Party might as well be conducting its discussions on another planet: there is little cross fertilization or input from other parts of the OECD.

Over the last several years, the World Bank has developed environmental and social policies guiding its support of private sector investment, and there is no reason why the ECAs could not simply agree to apply the same environmental standards and procedures that the bank does for private companies, especially since many of the same companies seek support from both the bank and the ECAs. Indeed, there is a growing number of projects where ECAs co-finance projects with the World Bank and other multilateral development banks, and in these cases the higher standards and the guidelines of the development banks are supposed to apply. One can point to other public international financial institutions that finance private sector investment, the European Bank for Reconstruction and Development, for instance, that also have more rigorous environmental and social policies than almost all of the ECAs.

In 1996, several ECAs approved financing for the Three Gorges Dam project in China after the World Bank and the US. Export-Import Bank rejected it on environmental grounds

The rationale for the blanket secrecy with which the ECAs conduct their operations is the need to preserve commercial confidentiality. But once again, the World Bank's policies for public disclosure of information in its dealings with the private sector belie these claims. For major projects, the bank requires environmental assessments, and in turn the assessments must involve public disclosure of environmental information and public consultations with affected populations. Although the bank's implementation of these policies has been deficient, the desirability and the feasibility of the policies for all international public support of private sector finance cannot be denied.

The crux of the situation is that to date major industrialized country governments have not had the political will and motivation to exercise more accountability and scrutiny over their ECAs. This situation is slowly beginning to change in a number of countries. In the United Kingdom there have been major parliamentary hearings on its ECA over the past year that have been extremely critical, and the press has picked up the cause. In Germany, the new Social Democrat-Green Party government pledged in its coalition agreement to reform German export finance "along socially, environmentally, and developmentally sustainable lines." However, as hinted at earlier, strong domestic pressures exerted by some of its main clients and the government ministries they influence have effectively blocked all reform

Even with the new G8 communique, the requisite political will can only come about through increased public awareness and public pressure, exercised through civil society organizations and national parliaments and the press. For the past two years non-governmental groups in major OECD countries, and in developing nations such as Indonesia and Brazil, have been building an international ECA reform campaign. Some 50 NGOs from over a dozen countries met for the Third International NGO Strategy Session on ECAs last spring, launching the worldwide cry for reform embodied in the Jakarta Declaration. Reform is long overdue. Over the past decade, the ECAs and their corporate clients have formed a perverse partnership that has resulted in the globalization of subsidized trade through the unfettered export of destruction. With the latest developments in the Group of Eight and the OECD, the end of the New Mercantilism may be in sight. •

The Jakarta Declaration, and other documents, can be seen on the ECA reform campaign Web site, www.ecawatch.org.

Ensuring That Subsidized Foreign Projects Are Green

The year 2001 could mark the beginning of an era when export credit agencies finally face up to the critical challenge of adopting common environmental guidelines. Progress has been made. However work remains to be done if ECAs are to reach consensus on how to ensure that the projects they support to build vital infrastructure in developing countries meet a credible set of environmental criteria.

James A. Harmon

So far, only a few ECAs have adopted policies that contain any provisions for the formal review of the environmental or social effects of their foreign projects. But recently we have received clear political mandates from the highest levels in governments to achieve consensus, and the world is losing patience. ECAs must demonstrate that they can change. The subsidizing of environmentally hazardous foreign projects must end, and ECAs must embark on a new era of "Green Support" for foreign projects.

Shortly after I accepted President Clinton's nomination over three years ago to head the Export-Import Bank of the United States, I became personally involved with promoting the concept of common environmental guidelines among my ECA counterparts. Progress was already underway — in 1995, Ex-Im Bank adopted an effective set of environmental procedures and guidelines that placed great importance on balancing our mission to promote exports with the need to protect the environment. The bank showed that it could meet the financing needs of U.S. exporters while helping to preserve the world's environment.

Unfortunately, Ex-Im Bank stood alone among ECAs. Nowhere was this more evident than in 1996, when ECAs received requests to provide financial support for the Three Gorges Dam project in China. Severe environmental concerns, underscored by the lack of information about myriad environmental issues, led Ex-Im Bank to withhold support. However other ECAs, most notably the G8 ECAs, were all too quick to pledge their support for this controversial project. I sincerely believe that if applications for a project such as Three Gorges came before ECAs today, the response would be much different. At the very least, there would be an exchange of environmental information, and maybe even consensus on a common approach to dealing with the project's environmental issues.

Though today most ECAs have become more sensitive to environmental concerns, the issues we face in achieving consensus remain daunting. Ex-Im Bank initiated discussions on the environment and ECAs nearly four years ago at the Export Credit Group meetings of the OECD in Paris. Our proposal was straightforward: each ECA should adopt an environmental policy that addresses the effects of its projects, and then ECAs should work to adopt common guidelines so that similar criteria and standards could be applied across the board. To my amazement, opposition to our proposal was not only intense, but came from virtually every OECD member.

The political process and strong intervention by environmental NGOs has helped turn the tide. G8 Summit communiques urging ECAs to address the environmental effects of projects were issued in 1997 and again in 1998. In 1999, the communique promised concrete action, which was reconfirmed in July, when the leaders stated, "We affirm our commitment to develop common environmental guidelines, drawing on [multilateral development bank] experience, for Export Credit Agencies by the 2001 Summit." The Export Credit Group itself is under an OECD Ministerial mandate to work toward "strengthening common approaches" by the end of 2001. These mandates have triggered special sessions of the Export Credit Group, and conferences or planned conferences of the ECAs of Canada, Germany, and Japan.

Despite the dialogue, a consensus among the ECAs on a common approach, and on environmental guidelines, remains to be developed. Some ECAs question the meaning of the term "environmental guidelines." One ECA advocates reviewing projects against a mix of environmental "benchmarks" that may consist of local standards, its national standards, World Bank criteria, or simply improvements to existing conditions. The problem with this method is its lack of transparency and its "guideline menu" feature, one that could lead to acceptance of the least demanding environmental criteria. Imagine the confusion among world suppliers and buyers if each ECA evaluated a project against a choice of criteria, or if each advocated "best environmental practices" without defining what they are.

Instead, ECAs should adopt a set of quantitative and qualitative guidelines drawing on internationally recognized guidelines such as those set forth by the World Bank. That way, exporters and foreign buyers will know exactly the environmental conditions needed for ECA participation in projects. Those host country standards that are more rigorous must always prevail. Different environmental evaluators may make different judgments about complex ecological or social issues. However, this underscores the need for transparency, information exchange among ECAs, and NGO involvement. Without definitive and credible common guidelines, the environmental race to the bottom will continue unchecked.

Much work remains to be done, and if the United States hesitates in its resolve, the progress made so far could come to a halt. But my early frustrations have turned to cautious optimism. ECAs can become green, and the "Greening of ECAs" will lead to greener projects across the globe, and a better quality of life for generations to come.

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