



Behind Closed Doors

A critical survey of the Austrian official export supporting system

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SUMMARY

Public export financing is one of the most important sources of financing. Export Credit Agencies (ECAs) have for a long time been responsible not only for the promotion of exports but support also – with public funds but without public control – direct investments in emerging countries of the South and East- and Southeast European countries and in the Former Soviet Republics. International studies show that the consequences of uncontrolled promotion can be catastrophic. Not taking into account the environment and society when granting public guarantees makes possible the promotion of projects that are incompatible with social, environmental and cultural aspects.

This study first looks into the general role of Export Credit Agencies including an explanation of the international environment in which they work. Then the efforts of international harmonization of ECA activities within the framework of the Organization for Economic Cooperation and Development (OECD) are described. Special attention is here devoted to the proposals of the World Dam Commission and the reactions of international nongovernmental organizations (NGOs). The study offers a detailed account of the Austrian export promotion (the financial and “non-financial”) of the domestic Export Credit Agency Austrian Kontrollbank (OeKB). Austrian export promotion is critically examined mainly from the point of view of the Austrian Court of Auditors and the OECD Development Assistance Committee (DAC). Special attention is devoted to the Kontrollbank’s recently established environmental assessment procedure. The study also gives an insight into the Kontrollbank’s role in the build-up of high indebtedness in so-called developing countries (especially in Africa) and in the East- and Southeast European countries.

One whole chapter is devoted to the reform proposals of international NGOs, which work together in the movement ECA-WATCH; one chapter is devoted to the Austrian NGOs who presented a detailed catalogue of demands for reforming the Kontrollbank.

The last part of the study shows with detailed case studies how pressing a reform of the Austrian export financing system is:

- The public funding of Austrian companies like Simmering-Graz-Pauker for participation in the building of the pulp and paper facilities “Indah Kiat” and “Inti Indorayon Utama” in Indonesia. The overcapacity constructed at these plants have led to uncontrolled logging of the local rainforest, expulsion of local peoples and contamination of rivers – catastrophic consequences.
- The Kontrollbank’s promotion of the internationally controversial hydropower plant Ilisu (Turkey) on the Tigris River: (1) without a convincing environmental impact assessment and (2) without guarantees that the project would be conducted in a socially acceptable way and (3) without agreement with the affected neighboring states Iraq and Syria and (4) in spite of massive forced resettlement of the local Kurdish minority and (5) the destruction of invaluable cultural goods.
- The San-Roque-Dam in the Philippines, built with participation of the Austrian company VA-Tech-Hydro. This project not only burdened the Philippine state with high financial obligations, but it also lead to high social costs and environmental risks.
- The role of Export Credit Agencies in the construction of the nuclear power plants Mochovce (Slovakia) and Temelin (Czech Republic).

The study concludes with ten arguments speaking for a reform of Export Credit Agencies.

In light of the fact that there will be an even stronger involvement of the Kontrollbank in the promotion of projects in East- and Southeast European countries – that is in Austria’s neighborhood – it is necessary to introduce binding environmental and social standards as well as public transparency of the agency’s conduct.

1 Introduction

Who is financing the Chinese Three Gorges Dam project, which forced the resettlement of over one million people? Where does the money that funds nuclear power plants in Eastern and Central Europe come from? Who guarantees the companies in industrialized nations that the construction of paper-mills with catastrophic environmental consequences in Indonesia does not pose a political risk should an emergency situation arise? How did developing countries end up with such crushing debt burdens?

When environmental, social, and development organizations criticize environmentally and socially damaging large-scale projects and when they investigate the causes of indebtedness of developing countries, they increasingly often come across Export Credit Agencies (ECAs) – and among them the Austrian Export Credit Agency Kontrollbank. Since the World Bank and the International Monetary Fund had to respond to massive public pressure and introduce environmental and social standards, ECAs have become – unnoticed to the public – the most important factor in the financing of international large-scale projects. On behalf on the state many ECAs grant loans and issue guarantees for political and economic risks in order to support participation of “their own” companies abroad. If the project fails the state steps in – with taxpayers’ money.

As public or quasi-public institutions, the ECAs are increasingly often receiving criticism internationally – in spite of attempts to keep their activities secret.

- ECAs do not follow any environmental or social standards. On the contrary: the competition among themselves, and with private credit insurance companies, creates a “race to the bottom” where they are ready to finance ever more environmentally and socially disastrous projects with the purpose of securing orders for themselves and the national economy. Not even several years of effort within the OECD framework has led to the introduction of binding environmental and social standards: the ECAs defy the pressure from affected people, nongovernmental organizations and even their own states.
- ECAs very often do not coordinate their activities with the development- and foreign policies of their countries and they enable projects to happen that are altogether contradictory to the idea of sustainability. Due to the integration process within the European Union and the OECD – which has made export promotion between industrialized nations impossible – ECA’s have during the past decades focused their activities in developing countries and in the countries of Central and Eastern Europe.
- Thus, ECAs, or the contracting states, have turned into one of the most important creditors of developing countries and are co-responsible for their debt crisis. For private investments, infrastructure projects and heavy industry they are worldwide the most important public source of financing – much more important than the World Bank Group and public development aid. The lack of environmental and social standards leads very often to the effect that mismanaged projects do not make any profit and in the end all that is left over are public debts (debts the tax payers has to pay) for these projects.
- Most ECAs conduct their businesses in complete secrecy. Neither people affected by these projects in the receiving countries nor environmental and development organizations nor even parliaments get an insight into the supported projects.

The above points have made organizations in the environment, social and development fields to lead an international campaign for the reform of the ECAs and export promotion since the 1990s. A first success is the on-going discussion within the OECD framework about environmental and social standards. The increased interest in ECAs, however, meets a wall of secrecy on the other side – many interested people give up because the issue “export credits” is mostly being discussed only from the economic point of view without taking into account the consequences for people and the environment of the receiving country. This study wants to change this: its goal is to shed light on the international role of Export Credit

Agencies and especially the Austrian ECA Kontrollbank within the context of environment and development.

The first part of the study (chapter 1 to 4) is devoted to international developments: first an explanation what Export Credit Agencies are and how they work and the background of the critique from the point of view of NGOs representing the interest of the environment and development; then a demonstration of the role change of the strongly nationally anchored ECAs in a globalized economy. One chapter is devoted to the international harmonization efforts within the OECD framework, which should lead to the introduction of unified environmental standards for ECAs. However, to date this has been a very slow moving process. This section will also outline the recommendation of the World Dam Commission to the ECAs and comment on the reactions of the NGOs.

The second part (chapter 5 and 6) is devoted to Austria. After a thorough analysis of the Austrian export financing system – from the Austrian Federal Economic Chamber to the Austrian Export Fund to the Austrian Kontrollbank – the focus will be on the Kontrollbank itself. Besides explaining the process, this chapter also explains the numerous points of critique – from lack of transparency to missing environmental and social standards.

The third part summarizes the demands of the NGOs for a reform of the ECAs and the Austrian Kontrollbank (chapter 7).

The fourth and final part (chapter 8) provides case studies of environmentally and socially disastrous projects that were made possible only with the support of ECAs (especially the Austrian Kontrollbank): From paper-mills in Indonesia to dams in the Philippines and Turkey to nuclear power plants at the borders of Austria. This study concludes with ten arguments for a reform of the ECAs – and the most common counterarguments.

2 What are Export Credit Agencies (ECAs)?

2.1 Why are ECAs controversial?

ECAs support several of the most expensive and risky projects in the world, including oil and gas production facilities, mining facilities, large dams, chemical factories and large coal fired or nuclear plants, as well as pulp and paper factories.

A number of ECAs even support arms trade. The British Agency ECGD (Export Credit Guarantee Department) devotes about one third of its funds to the support of arms exports. ECAs do not accept conditions whereby they would have check whether goods declared for civil use are not being abused for military purposes. These are so-called “dual use” products, e.g. fire hoses that can be used for the military/police during protests and demonstrations, trucks for military use, and hunting guns as small arms for infantry etc.

BOX 1: IMPORTANCE OF EXPORT CREDIT AGENCIES IN WORLD TRADE

Public Export Credit Agencies (ECAs) are extremely important players in the support of international financial flows (credits and investments).

In 1999, ECAs covered export and investments abroad for a value of 426 billion USD with guarantees and insurances. This is almost 10 per cent of the industrialized countries' exports. For comparison, the exports of the industrialized countries make up more than $\frac{3}{4}$ of world exports.

Out of these 426 billion USD, 412 billion are export credit guarantees and 14 billion investment insurances.

According to World Bank estimates, about 50 billion USD flow yearly to large infrastructure projects in developing countries through the help of ECAs. This contribution alone exceeds the total bilateral and multilateral development aid.

The World Bank points out with regret, however, that around 75 percent of private financial flows into the South reach only 10 developing countries and that of these monies hardly any go into areas that would be of special importance to sustainable economic development and social well-being (e.g. transport and water management).

ECAs are time and again involved in projects associated with massive human rights violations. One example is the planned Ilisu Dam in Turkey, for which the construction resettlement of tens of thousands of Kurds is necessary. The Ilisu dam could in this region – with its lack of water – even lead to a war for water with neighboring countries. The project will furthermore flood important archeological sites in the region. In spite of this, several major ECAs intend to support the Ilisu dam construction, and among them are the US Export-Import Bank, British ECGD, Italy's SACE, and the German Hermes. In addition, the Austrian Kontrollbank guarantees a share (*for more details see section 8 – case studies*).

ECAs are important creditors to developing countries. About one fourth of the developing countries' foreign debt is being managed by ECAs. Taxpayers in these countries might under certain circumstances be forced to pay for projects that have harmed the environment and the population. Repeatedly, governments of developing countries have fought against ECA pressure to issue state guarantees to cover obligations of domestic private project participants and thus turn private debts into state debts.

In most cases ECAs do not have any environmental or social criteria and act under absolute secrecy. Through business and bank confidentiality, private companies and their banks should be protected from foreign competition. Other international financial institutions that work with public funds, including the World Bank, have framework conditions for a more environmentally friendly policy. The World Bank e.g. has in many areas introduced strict conditions for Environmental Impact Assessments. The World Bank also assures more transparency and is required to consult with NGOs and affected people.

Comparatively, ECAs are the public financial institutions that take the least amount of environmental, social and human rights aspects into consideration in their funding decisions.

2.2 International reform efforts of ECAs

For more than four years the G8 heads of government and states and the responsible ministers of the OECD countries have had a clear mandate to prepare common environmental standards for export credits and guarantees. Negotiations are being held within the framework of an OECD body called the Export Credit Group (ECG).

The task given to the ECAs to negotiate common standards follows calls by several industrial sites that worry about competition disadvantages if each country would decide on varying strict standards.

International environment and development organizations demand that the negotiations generate clear and binding standards securing environmental and developmental interests.

To date, the only procedure that has been accepted among ECAs is the so-called "Benchmarking" process, which essentially amounts to a definition of standards and procedures ("pick and mix") on a project-by-project basis: an approach whereby the possibility to choose the "best possible" sets of standards that exists nationally and internationally is kept open.

The OECD negotiations have to date hermetically excluded civil society. Unofficial consultations have been held only with NGOs from industrialized nations in the last years. In April 2001, three NGO representatives from developing countries were for the first time invited to talks in Paris.

3 Export Credit Agencies in a globalized economy

The rapidly increasing integration of the world market seems to surpass the once very respected institutions for public export financing. The reputation of public export promotion as key to international markets seems to be slipping continuously.

The former promotional idea of ECAs – to support the exports of domestic industry to competitive markets – seems to more and more retreat into the background.

Meanwhile, the reputation of ECAs is worsening. In Great Britain, where the Export Credit Agency is a public institution, its aim to increase companies' turnovers lead among other things also to the granting of export guarantees for arms.

However, ECAs have more than just an image problem troubling them. Turbulences, for which signals have been apparent for quite a while, have turned into a serious structural crisis.

ECAs are confronted with growing competition from private insurance companies and ECAs from so-called transitional economies (Mexico, South Korea, Brazil etc.). This fact is being used time again as an argument for why it is not possible to carry through a reform since this would weaken their position against the new competition.

The globalization of economy is changing the essential basic conditions that were in the period between the world wars preconditions for establishing ECAs in industrialized nations.

3.1 National anchoring of ECAs and integration of international economics

All ECAs, including those agencies established after the Second World War, like the Austrian Kontrollbank, have very strong national obligations.

In the times of tough competition between national economies/states, ECAs had an important role to fulfill, namely to establish entry or secure a position in export markets.

Austrian export financing is dictated by law to have one overriding goal and purpose, namely the improvement of the Austrian balance of goods and services.¹

The strongly national orientation of export promotion means fewer and fewer opportunities in a globalized world economy. Of course, economic competition has not been abolished, but it is not bound to national borders any more. With the increasing disintegration of national markets, basic functions of nationally oriented ECAs are being adversely affected.

The world economy, which is strongly dominated by transnational companies in a highly interconnected system, calls for export support with developed capability to integrate across borders. However, ECAs are not yet reoriented to do this. Adaptation to fit the new international conditions, however, cannot be developed from the current position of limitation at the national level.

However, not only large transnational companies are becoming challenging for ECAs. Each export-oriented company has to become more and more international. ECAs as traditional promotional institutions of local industrial sites are facing sweeping changes of the factors that define an industrial site.

¹ Export Guarantees Act 1981 (Ausfuhrförderungsgesetz 1981)

BOX 2: AUSTRIAN PARTICIPATION IN THE THREE GORGES DAM PROJECT

A good example of the impacts of economic integration on the ECAs way of working can also be found in Austria: the contradictory participation or non-participation of an Austrian company in the Chinese Three Gorges Dam project.

At the end of 1999, VA-Tech (VOEST-ALPINE Technics A.G.) – an Austrian company officially not involved in the Three Gorges Dam project – bought the Swiss hydropower construction company “Sulzer-Escher-Wyss” and thus inherited its projects. Among them was included a relevant participation in the internationally controversial dam construction at the Yang-Tse with unforeseeable ecological impacts and the forced resettlement of 1,8 million people. However, the political and economic risks of the now quasi-Austrian involvement are covered by the Swiss Export Credit Agency ERG.

Managers of such rapidly expanding companies seem to have problems classifying their participations. At a press conference at the end of 2000, VA-Tech’s managing director insisted that “his” company is “too small” for “large dam construction”. Asked about Sulzer’s Chinese order, he admitted to the so-called “Sulzer-participation”.

Thanks to acquisitions during 2000, the up-and-coming transnational company became the number 2 in the international hydropower construction business. At the same time, 24 percent of the shares still belong to ÖIAG and therefore in Austrian state ownership. (In addition, 19 percent are owned by VA Stahl A.G., where the Austrian state has a blocking minority as well).

A company like VA-Tech, which consists of more than 300 companies spread out worldwide, predictably causes considerable problems with the sphere of responsibility for nationally oriented Export Credit Agencies.

ECAs are increasingly often confronted with partners that have the possibility to choose. In addition, the services they offer can be obtained elsewhere. Each company can outsource individual products or services ad hoc, combine them and put them together somewhere else.

3.2 Project oriented promotion

Now-a-days, large projects are being realized only by international company consortia. The financing is made possible with the cooperation of several ECAs.

The ambivalence between cooperation and competition persists. In some instances, ECAs have to work in close cooperation to ensure that they support a project with the participating companies and do not hamper them. In other instances, they face each other as competing supporters when they have to provide the companies in their own country with better conditions for a tender compared to the competitors “abroad”.

3.3 The push into riskier markets

The neo-liberal deregulation of world trade and financial markets coupled with the establishing of large integrated areas (EU, NAFTA, etc.) forces ECAs to seek markets further away from home. The banning of public funding out of core regions (because of competition distortion) forces ECAs almost exclusively into regions of developing countries and well there into ever poorer countries. Public export promotion is within the OECD area (with a few exceptions) not allowed any more.

This development is currently the biggest worry for ECAs since exports and investments in developing countries and Central and Eastern Europe have until now been accompanied by unusual risks, which cannot be assessed using only business management.

Moreover, they deal very often with heavily indebted countries that do not have the capacity to completely pay back the debts they accumulate.

The risk potential also increases because many projects (e.g. large transport and energy infrastructure projects) in sensitive markets can have unforeseeable social, cultural and environmental impact.

ECAs are able to take on the high risks only because claims resulting from guarantees are covered by the state. This increases the probability that potential losses of the ECAs cannot any more be covered within the frame of a (mostly state-owned) guarantee system. In such a scenario, the taxpayers of the country where the ECA is based have to pay because of a failed or missing project policy.

As a reaction to the higher risks one can observe a stronger integration of the ECAs not only among themselves but also with other financial institutions.

The Berne Union (the international co-operation organization of public Export Credit Agencies and export insurance agencies) tries to enhance cooperation with the World Bank Group, especially the International Finance Corporation (IFC), which also promotes private sector investments. In the past years, cooperation has begun mainly focusing on infrastructure projects. At present there are 12 joint projects between IFC and individual ECAs to a worth of 1,6 billion USD.²

3.4 The relationship to public administration

A typical characteristic of traditional export financing is the close connection between state and economic interest. They are linked via a public administration (usually the Ministry of Finance), which mediates and conducts the financial transfer of public funds to the export industry.

All ECAs have in common that they are the interface with the state administration. In some countries the Export Credit Agency is more or less an outsourced public institution (e.g. Great Britain). In other countries, like Austria, it is a “service provider for the credit economy”³ which conducts export financing on behalf of, and at the risk of, the state. Yet a different situation exists in Germany or France where major insurance companies to handle the state’s export guarantees.

3.5 The role change of the Austrian Export Credit Agency

The crisis of Export Credit Agencies in a globalizing economy affects of course also the Austrian Agency, in some aspects perhaps even to a stronger degree and in others perhaps to a lesser degree. As a consequence of the general crisis, the Austrian Kontrollbank is going through its own structural crisis.

When it was established in the fifties, the goals, the mission, the market and the socio-economic conditions were compact and clear.

² Berne Union Annual Report 1999

³ Oesterreichische Kontrollbank, ‘Schwerpunkte der Geschäftstätigkeit,’ June 2000

- a) There was a strongly dominant nationalized industry whose exports had to be boosted.
- b) Mediators were Austrian banks, which belonged either to the Federation (of Austria), or the Federal Länder or the communities and therefore acted also as a type of state institution.
- c) The Social Partnership⁴, in its function of supervising body for export financing, did not see itself – with its representatives in the administration and legislation – as a controlling body serving the public.
- d) The designated institution, the Austrian Kontrollbank AG (OeKB), was formally under direct ownership of the banks, and this at the same time as it received a state role as the trustee of the Ministry of Finance.

The motivation behind creating the tasks for the Austrian Kontrollbank was strongly dominated by national interests and molded by the socio economic environment, of which the Kontrollbank itself was an essential part.

In the mid-1980s, Voest-Alpine, the core of Verstaatlichte (Austria's nationalized companies), encountered strong turbulences when the concern's trading company Inter-Trading faced extraordinary high losses in the trade of goods on the international stock markets. As a consequence, the outsourcing of several fields of Verstaatlichten Industries and the privatization of banks was speeded up.

Also in the mid-1980s, the nationalized company Noricum exported weapons into Iraq and Iran, who were at war with each other. This made visible the strong contradictions in the Austrian concept of the nationalized big industry. Economic interest contradicted the law.

Influenced by these developments, the first privatization programs started in 1993 and thus were the first steps taken towards the dissolution of the close relationship between state and economy. This process accelerated later on. At the same time, the volume of export credits for which the Austrian Kontrollbank granted guarantees increased.

How deep going the changes became is visible especially in the financial sector. A good example is the Kontrollbank itself and its ownership structure. In February 2001, the director general of the Raiffeisenverband Salzburg, Manfred Holztrattner, called for a reform of export financing considering the foreign dominance in the ownership structure of the Kontrollbank. He further said that the Kontrollbank is owned to 65 per cent by foreign banks. This would mean that also Exportfonds GmbH, the export financing institution for small and medium sized enterprises (SME) – a 70% daughter company of Kontrollbank – would be dominantly foreign-owned. This is not good for the domestic economy, said Holztrattner. He called for the re-organization of the system, which would re-focus back on Austrian firms.⁵

In addition, the companies who had been part of the nationalized fields are now independently presenting themselves on the world market. At the same time, the close relationship to the Social Partnership is dissolving alongside the ongoing privatization trend. Extensive arrangements cannot be achieved as easily as they used to.

However, the Social Partnership is still involved in the export financing council. Additional measures of control by civil society is necessary due to increased demands in the environmental, social and human rights fields (see also section 4.2).

⁴ Social Partnership is the institutionalized participation of interest associations of employees and workers in the process of policy-making.

⁵ Wirtschaftsblatt Online, 2 February 2001

The end result is a new situation for the ECAs: the state retreats from its former central role as manager of the economy and reduces its active neutrality policy, which previously also served as signals for foreign trade.

4 International efforts towards harmonization

A number of efforts toward harmonization on the international level react to different signs of crisis of the ECAs. The most important forum is certainly the Organization for Economic Cooperation and Development (OECD) seated in Paris.

4.1 The search for “Consensus” at OECD

In the 1970s, an informal forum within the OECD framework started to negotiate the harmonization of financial procedures and guidelines for public Export Credit Agencies.

In 1978, agreement was reached on guidelines for Officially Supported Export Credits. This was the so-called Consensus Arrangement where for the first time common procedures were laid down for export credits with a repayment time of over two years.

Most commonly, however, guidelines are not binding within the OECD. The informal forum is not an OECD body but is administered by the OECD on a voluntary basis. Participants are all OECD members except Iceland, Mexico, Turkey and Slovakia; Hungary and the Czech Republic and Poland have only signed up as “observers”.

The agreement contains a special package called the “Helsinki rules” for tied development aid export credits. In 1996, an additional guideline for tied development aid was added to the Consensus Arrangement as a supplement to the “Helsinki rules” for tied credits. These should help to recognize in time whether a proposal can at all be taken into consideration as a development aid export credit. The purpose of this guideline is to prescribe the richer developing countries, which are able to attract private capital, to do so and leave the concessionary loans (“Soft Loans”) to the poorer developing countries.

In 1998, the “Consensus” was amended and enlarged. The “Consensus” in the version of 1998, which was accepted by the European Union as a binding guideline for export credits, is meanwhile law for all EU member states.⁶

In 1998, an agreement on project financing was reached, but for a limited test period of three years. The general conditions of the Consensus were eased in favor of external financing ratio for project financing. This should give space to the development of more complex foreign business transactions. Using these experiences, a final scheme beginning in 2002 for project financing should be agreed upon.

Since the mid 1990s, there has been increasing pressure from leading political circles towards a harmonization of instruments and business policies and also towards applying environmental and social criteria for risk assessment and the granting of guarantees.

4.2 Efforts towards more environmental awareness for ECAs

The strongest call for more environmental considerations for ECAs came from the seven biggest industrialized countries G-7 (later G-8 after the inclusion of Russia for certain parts of the agenda).

Since 1998 ECA reform has been a fixed item on summit agendas. In Cologne in 1999, a deadline for the formulation of common environmental guidelines was set for 2001. This deadline was clearly confirmed one year later at Okinawa.

⁶ The complete text of the “Consensus” can be found under http://www.oecd.org/ech/index_2.htm

In parallel the OECD ministers' conference dealt with the necessity of comprehensive reform and mandated the Working Party on Export Credits and Credit Guarantees (ECG) with the preparation of common approaches for environmental standards until the end of 2001.

In this process the US was clearly the driving force while most European countries initially used delaying tactics. It seemed as if members not part of the G-8 wanted to ignore the deadline set by the G-8 and only during 2000 was there some movement on the issue.

To counter US pressure it was argued that ECAs are already under great pressure due to world market liberalization. In order to avoid distortion of competition, ECAs must not make any losses. Losses have to be balanced out with public funds and thus cause distortion.

It seems important to achieve agreement on **information exchange** on environmental aspects of larger projects and a sign of progress can be seen in the intention of ECAs to cooperate on Environmental Impact Assessments. The need for increased information exchange and that such exchange should be coordinated by the OECD secretariat became obvious. The reasoning for this is cost considerations, because Environmental Impact Assessments for large-scale projects are very expensive^[TS1].

Meanwhile, every ECA was asked to develop procedures (usually questionnaires for applicants) for how to define the impact of large-scale projects (over 10 billion euro) on the environment. Such procedures could then trigger the not yet laid down assessment procedures.

The three-year-long negotiations left the impression that this topic was not of real internal concern for most ECAs but was treated rather as a mandate coming from the outside. Decisive for an ECA reform will be the inner conviction and the pressure from politicians on the national level.

4.3 Harmonization efforts at OECD

As was already described, the negotiations concerning common starting points on questions surrounding environment and export credits are taking place at full speed. Now it seems as if there will be an agreement on very non-binding criteria. While representatives for some ECAs, like the US, demand to set environmental standards at least as high as those of the World Bank and the European Bank for Reconstruction and Development, the silent majority seems to be in favor of flexible handling of the matter, which would correspond to the minimal standards of the receiving country. There seems also to be plenty of resistance concerning the question of increased transparency.

On the question whether NGOs should be invited to consultations, Austria seems to be putting on the brakes. The explanation given is the legal situation (obligation of secrecy). According to diplomatic sources, Austria also refuses to lay down sustainable development as a goal of export financing.

4.4 “Productive” exports for highly indebted developing countries

Another issue that the working group ECG is intensively discussing concerns the so-called “productive expenditures”, which highly indebted poor countries should be encouraged to make. Highly indebted poor countries are currently negotiating debt relief within the framework of the World Bank and International Monetary Fund's “HIPC-Initiative”⁷. These states should try to only incur new debts if it can be assured that the credits can be paid back in the future. That is, new loans should be incurred only for projects or goods deliveries that

⁷ Heavily Indebted Poor Countries Initiative – HIPC. An international initiative for canceling the debts of the 41 so-called heavily indebted poor countries.

support social and economic development that the poorest regions benefit from, helps them to get foreign currency or that initiate self-financed projects. In 2000, the first guidelines for countries in the HIPC process as well as the exchange of relevant information were agreed upon. By the end of 2001 these guidelines should be extended to other poor indebted countries.

4.5 Agricultural products

Informal talks are taking place within the framework of the OECD to develop procedures for export credits for agricultural products, which have until now been kept out of the Consensus Arrangement. The mandate to hold these negotiations stems from the Uruguay-Round. With Article 10.2 of the WTO-Agreement⁸ on agriculture, the WTO member states agreed to develop procedures for export credits for agricultural products. The task to present proposals was given to the informal OECD working group ECG (Working Party on Export Credits and Credit Guarantees (ECG)).

4.6 ECAs and WTO rules

ECAs examine individual financing instruments of the Consensus Arrangement for their compatibility with WTO-rules. One such instrument is the "CIRR-System", which regulates the commercial interest rates for export credits.

The WTO Agriculture Committee intends to discuss in depth in July 2001 the options for a reform of the granting of export credit guarantees and export credits.

4.7 The OECD Anti-Bribery Convention

ECAs are currently, with some delay, in the process of implementing their own declaration they presented at the end of 2000 on the OECD "Convention on Combating Bribery of Foreign Public Officials in International Business Transactions",⁹ which entered into force in February 1999.

The ECAs committed to inform applicants about the consequences of bribery in international business. The exporter should declare that they have not in the past and will not in future commit bribery. All recipients of public funding will be made responsible to declare their expenditures and to be transparent concerning all relevant expenditures. In case there is enough evidence about dishonest acquisition of orders, the ECA shall refuse the support. If participation in bribery should be proven after the ECA granted the support, the ECA is bound to refuse the payment or claim it back and to announce the case to the responsible authorities.

Until March 31 2001 – that is four months after the declaration – only a few ECAs had taken concrete steps towards fulfilling their promises.

In the German-speaking countries the Swiss ERG informed its applicants and interested persons clearly visible in the NEWS section on their homepage the relevant changes in the application forms.

The Austrian Kontrollbank followed this example in May 2001 and announced this in a press release.

⁸ WTO is the World Trade Organization seated in Geneva.

⁹ See www.oecd.org.

4.8 ECA reform recommendation by the G-8¹⁰

The G-8 Environment Ministers agreed at their preparation meeting in March 2001 for the G-8 Summit in July in Genoa a range of recommendations for ECA reform:

The ministers expressed their wish that the system of export credit insurance should fulfill the criteria of sustainable development. Safeguarding of the global environment must be a central concern during application reviews.

ECAs, as institutions that promote exports and foreign investments, could play a key role for a sustainable development. ECAs should therefore take necessary actions to ensure that environmentally negative impacts, both locally and globally, arising from the projects they support are mitigated and minimized.

The G-8 Environmental Ministers insisted that international common binding environmental guidelines be developed by OECD in order to encourage strengthened integration of environmental consideration in investment decisions. These guidelines should be based on standards recognized by the European Bank for Reconstruction and Development.

ECAs should also adopt common measures to increase transparency in their decision-making process, including public access to environmental information and public consultations.

The recommendations of the World Commission on Dams (WCD) should be taken into consideration.

4.9 Conclusions on the OECD-Process

Civil society is as a rule excluded from ongoing harmonization efforts within the OECD framework, this despite that problems of economic policy are discussed.

Signs of “opening up” of the ECAs towards NGOs on a national level can up to today only be seen in Australia and Japan where civil society representatives take part in reform talks.

4.10 Recommendations of the World Commission on Dams

An example for a broader approach to international harmonization is the independent World Commission on Dams (WCD), which is based in Cape town, South Africa.¹¹ In April 1997, representatives with diverse interests, with the support of the World Bank and IUCN (The World Conservation Union), met in Gland (Switzerland), against the backdrop of a recent World Bank report, to discuss highly controversial issues associated with large dams. In this workshop participated 39 representatives from governments, the private sector, international financial institutions, civil society organizations and affected people. One proposal by the conference participants was the founding of a World Commission on Dams – to be supported by all participants – with the task to:

- review the development effectiveness of large dams and assess alternatives for water resources and energy development; and
- develop internationally acceptable criteria, guidelines and standards, where appropriate, for the planning, design, appraisal, construction, operation, monitoring and decommissioning of dams.

¹⁰ From the G8 Environment Ministers Communiqué, Trieste, Italy, 2-4 March 2001

¹¹ Large dams are those that are higher than 15 m. Smaller dams can also be “large” when other criteria are taken into account. The purpose of dams is to produce energy, irrigate agricultural fields, regulate rivers for shipping and against floodings and also to secure drinking water supply for heavily populated areas.

The 12 members of this independent Commission represented a broad spectrum of expertise and positions. Under the chairmanship Kader Asmal, the South African Minister of Education (former Water – and Forestry Minister), the commission included eminent persons such as Medha Patkar of the Indian Save Narmada movement and former chief executive of the concern Asea Brown Boveri (ABB) Göran Lindahl.

After more than two years of thorough research, dialogues with advocates and opponents of large dams, and far reaching considerations, the Commission believes there can no longer be any justifiable doubt about five key points:

“Dams have made an important and significant contribution to human development, and the benefits derived from them have been considerable. In too many cases an unacceptable and often unnecessary price has been paid to secure those benefits, especially in social and environmental terms, by people displaced, by communities downstream, by taxpayers and by the natural environment. Lack of equity in the distribution of benefits has called into question the value of many dams in meeting water and energy development needs when compared with the alternatives. By bringing to the table all those whose rights are involved and who bear the risks associated with different options for water and energy resources development, the conditions for a positive resolution of competing interests and conflicts are created. Negotiating outcomes will greatly improve the development effectiveness of water and energy projects by eliminating unfavorable projects at an early stage, and by offering as a choice only those options that key stakeholders agree represent the best ones to meet the needs in question.”

On 16 November 2000, the Commission publicly presented its recommendations to public financial institutions such as the World Bank, regional development banks, and Export Credit Agencies.

ECAs have always had (and still have) a leading role in the promotion of large hydropower plants. The Austrian Kontrollbank also played an internationally prominent role. The Kontrollbank’s commitment was probably influenced to a large degree by the Austrian company VA Tech (part of the former state-owned industry), which meanwhile has become the second largest hydropower construction company in the world.

According to the WDC Report, were up to 58 million people displaced in China and India between 1950 and 1990 because of the construction of large dams. Worldwide the Commission estimates this figure to be up to 80 million people. During the numerous forced displacements in Guatemala at the end of 1970s were 400 villagers massacred by the army because they refused to leave their lands for the construction of the Chixoy Dam.

4.10.1 Results of the Commission’s study

Below the results of the World Dam Commission are summarized:

Large dams designed to deliver irrigation services have typically fallen short of targets, did not recover their costs and have been less profitable in economic terms than expected. Large hydropower dams tend to perform closer to, but still below, targets for power generation, generally meet their financial targets but demonstrate variable economic performance relative to targets. According to the WCD Report large dam projects are often completed with delays and exceed the projected costs by far.

In sum the WCD report found a general lack of engagement or lack of competence for handling the problems connected to expulsion or resettlement. Especially large dams, which were examined in the report, caused substantial damage to cultural heritage. Cultural resources of affected communities are lost, burial places and archeological sites are flooded

and damaged. The study also shows that poor people, endangered groups and future generations have to bear a disproportionately high share of social and environmental costs of large dam projects, and this without reaping proportionately from the economic benefit: Indigenous and tribal peoples and vulnerable ethnic minorities have suffered disproportionate levels of displacement and negative impacts on livelihood, culture and spiritual existence.

The experts of the World Dam Commission have also come up with several concrete recommendations for dams that are either already completed, under construction, or planned.

- Recognition of rights and assessment of risks can lay the basis for identification and inclusion of adversely affected stakeholders in joint negotiations on mitigation, resettlement and development-related decision-making.
- Unsolved social conflicts connected to existing large dams should be identified and assessed; measures and formally and legally binding procedures to solve these problems should be developed together with the affected communities.
- Existing environmental protection measures should be assessed to see how effective they are and whether they cause unexpected impacts; possibilities for the protection, for the recovery and the improvement of the environment should be identified and implemented.
- A comprehensive monitoring and evaluation procedure for after the completion of a project. A system of medium term to long-term inspections of output, benefit and the impacts should be introduced for all existing large-scale dams.
- All large dams are under binding agreements regarding the operations and temporarily limited operation licenses; if at the time of their prolongation it is concluded that a bigger physical changes to the installation, or even a close down, could make sense, a complete feasibility study as well as a balance of environmental impacts and social consequences should be conducted.

4.10.2 The reaction of nongovernmental organizations

The call for action¹²

(supported by, among others, the Berne Declaration, a Swiss NGO that participated in the World Dam Commission)

- The recommendations by the World Commission on Dams should be immediately and comprehensively adopted. The recommendations should become guidelines for promotion policies in the field of water and energy development, environmental impact assessment, cooperation with local peoples and examination of public acceptance of all those who would be affected by the project.
- All public financial institutions should immediately establish independent, transparent and participatory reviews of all their planned and ongoing dam projects. While such reviews are taking place, project preparation and construction should be halted.
- The examinations should guarantee that the projects correspond with the recommendations of the World Dam Commission. If not, the projects have to be modified or halted.

¹² See <http://www.dams.org>

- All institutions sharing the responsibility for the negative impacts of dams should immediately establish mechanisms to provide reparations to affected communities that have suffered social, cultural and economic harm as a result of dam projects.
- A moratorium should be declared on funding the planning or construction of new dams until it can be demonstrated that the above measures have been taken.

4.10.3 The official reaction of Austria

Half a year later had neither the Federal Minister of Finance nor the director of Austrian Kontrollbank publicly announced their position on the results of the World Dam Commission. VA-Tech also refused to answer journalists on questions referring to this subject.

Instead, Austrian construction companies are in cooperation with VA-Tech preparing the construction of several large dams in Turkey.

5 Export promotion in Austria – an overview

All industrialized countries have a well-developed export promotion system.

Austria has by international comparison certain special traits because of its compact and widespread system of the Chamber of Economy. Due to compulsory membership practically all entrepreneurs are connected to this network. This offers an institutionalized presence in all Federal Länder of Austria. The network of Foreign Trade Service Offices creates a unique linkage between domestic and foreign markets.

To show how highly integrated this promotion system in all its different forms is, we want to explain the system of “functional” and “financial” export promotion.

5.1 “Non-financial” export promotion

Export promotion mechanisms are almost exclusively in the hands of the Chamber of Economy and the Chambers of Economy in the Federal Länder.

The focal point of functional export promotion is Austrian Trade (AWO – Aussenwirtschafts-Organisation), which defines itself as the engine of foreign trade and economic ties with the EU and third states. AWO has at its disposal a representation net of 83 Austrian Trade offices abroad and a further 15 country departments and 23 specialized departments. The most important functions of AWO are: consulting, advertisement, public relations, trade fairs, lobbying and cost contributions.

AWO employs about 120 full-time employees in Austria and another 280 abroad. The yearly budget amounts to 72 million euro of which 54 million euro is allotted to the organizations abroad.

The “Foreign Trade and Integration Department” of the Economic Chamber deals with economic integration within the EU and also looks after Austria’s economic interests in international economic negotiations (World Trade Organization - WTO, investment agreement – MAI, research cooperation, commercial law, and tariff law etc.).

The Institute of Business Promotion (WIFI) is also part of the system and offers an education program as well as the organization of exhibitions and events abroad.

In addition, political representatives offer quite important support. Most visible is the personal engagement of the Federal President, the Chancellor and ministers and heads of provincial government.

State visits are usually accompanied by an entourage of entrepreneurs who make use of contacts in the protocol for their business interests. Banquets, symposia, sightseeing etc., are used for the promotion of business contacts.

The success of state visits is very often being documented by listing the business transactions.

Furthermore, politicians are actively promoting their country’s companies and play an important role when it comes to the opening up of new markets. It was mentioned in media that politicians mediate economic contacts e.g. in connections with Indonesia, Turkey and China.

Diplomatic personnel at embassies also play an important role for the mediation of business contacts.

5.2 “Financial” export promotion¹³

The most important instrument of export promotion is the financial support in form of loans and guarantees. They enable exporters to secure competition advantages on the world market. They also insure against economic and political risk of foreign transactions. Then Austrian export financing (in the form of guarantees and loans) is based in essence on the following institutions:

5.2.1 Export financing for Small and Medium sized Enterprises¹⁴ (SME)

The export financing for SME is handled by two specialized financial institutions:

BÜRGES Förderungsbank Ltd. (belongs to the Federal Ministry of Economy and Labor). Bürges offers three international promotion programs:

- Guarantees for foreign investments up to 0,7 million euro
- Endowments for studies (contribution of up to 50 per cent of the cost of feasibility studies, etc. – up to max. 94 500 euro)
- Cooperation in developing countries: contribution to project costs for the development of partnerships in developing countries (in cooperation with the Ministry of Foreign affairs) (max. 72 672 euro, up to 30 per cent project costs).

Austrian Exportfonds Ltd.

(70% owned by Austrian Kontrollbank, 15% owned by Chamber of Economy and 15% owned by the Republic of Austria). Exportfonds was founded in 1950 for export financing of Austrian SME. It finances transactions or market measures (the latter only outside the EU).

5.2.2 Market oriented credit insurance

“Marketable risks” (demands towards private customers inside the OECD with a risk period of maximum 2 years) can since 1 January 1995 be insured only via private credit insurance companies. This fact coupled with the refusal of many receiving countries to accept guarantees led to a strong increase of transactions in private export credit insurance.

In this sector, large foreign insurance companies gained prevalence in Austria. Apart from financial strength, one of the competitive reasons is that these insurance companies keep complex data banks on private clients worldwide making it easier for their own clients to check the solvency of their foreign business partner.

The Austrian credit institutes recommend to their clients four private insurance companies for export and investment transactions:

PRISMA Kreditversicherungs-AG (Inc.)

Founded in 1989 as a private credit insurer. Owner: 54% Austrian Kontrollbank, 42,2 % Hermes Kreditversicherungs AG (Inc.), 3,8 % Free Float.

ÖKV – Österreichische Kreditversicherungs-AG (Inc.)

Founded in 1954. Today the majority owner is the COFACE group, one of the biggest insurers and entrusted with the public export credit financing of France.

¹³ Martina Neuwirth: “Die Exportförderung in Österreich“, in “Private Kapitalflüsse –Weg aus der Krise?“ ÖFSE-Edition Band 10; Published by: Österreichische Forschungsförderung für Entwicklungshilfe, Vienna, 2000.

¹⁴ SME are companies with up to 250 employees and a maximum annual turnover of 40 million euro. A company not classified as SME cannot own more than 25 per cent of capital or voting rights.

Moreover, there are two branches of German insurance companies with an Austrian license:

**GERLING KONZERN Allgemeine Versicherungs-AG (Inc.)
GOTHAER CREDIT VERSICHERUNGS SERVICE**

5.2.3 Public export credit and investment financing

The Federal Ministry of Finance and the Federal Ministry of Economy and Labor take care of public export credit financing and foreign investment financing either via their own subsidiaries or an accredited agent. This dual track is a peculiar relic that seems to be deeply rooted in the history of the Austrian Social Partnership. In any case, it was not possible to obtain a satisfying explanation from those involved.

FGG FINANZIERUNGSGARANTIE-GesmbH (Inc.) – OST-WEST-FONDS

(100 per cent owned by the Republic of Austria and within the competence of the Federal Ministry of Economy and Labor)

FGG is according to its own definition a special bank founded by the Republic of Austria in 1969 to make financing of Austrian companies easier. FGG accepts economic risks for investments on the basis of expected future entrepreneurial and project chances.

The foreign trade focus is on foreign investments. The East West Fund has 726,7 million euro of public funds at its disposal for direct investment. These funds are used for sharing the economic risk of Austrian investments. The legal basis is the Guarantees Act.¹⁵

Within the EU or the European Economic Area (EEA) SMEs can be supported only in cooperation with BÜRGES. For countries outside EEA (Eastern Europe, Latin America and Asia) all guarantees and services are available.

The most recent FGG initiative, dubbed “Go Egypt”, promotes Austrian investments and joint ventures in Egypt. “Go Egypt” was launched in March 2001 and was declared the first Austrian “foreign direct investment initiative outside Europe”.

FGG supports mainly investments in the fields of energy, environment and community infrastructure. It does not support investments in the fields of agriculture and forestry, insurance or within the real estate business.

AUSTRIAN KONTROLLBANK AG

(Owned by commercial banks: CA-group 24,75%, Bank Austria 16,14%, Raiffeisen Zentralbank 8,12%, Raiffeisen-Bankengruppe 5,00%, Erste Bank 12,89%, Westdeutsche Landesbank 10%, others: Schoellerbank, Bank f. Kärnten und Steiermark, Bank f. Tirol und Vorarlberg, Oberbank, Österreichische Volksbanken AG (Inc.))

The Austrian Kontrollbank (OeKB) was founded as a service company for the Austrian credit system.

Since 1950, OeKB has been entrusted by the Federal Minister of Finances with the banking procedure for Austrian financial export promotion. This makes the OeKB the official Export Credit Agency of Austria.

The OeKB handles public guarantees for export credits and investments that are authorized by the Republic and are granted on behalf of the Republic of Austria. Since Austria joined the

¹⁵ Guarantees Act of 1977 (BGBl. 196/1977)

European Union (EU), the activity of public insurance activities by the OeKB has been confined to “non-marketable risks” outside EU and most OECD-countries.¹⁶

Since 1960, the OeKB also handles the financing of exports of goods and services for medium and long-term maturity of payment with a special focus on the export of capital goods and more recently, according to information by OeKB, also project financing.

The export financing procedure of the OeKB is used for financing (on favorable terms) export credits of commercial banks and the Kontrollbank’s own direct financing service. A precondition for financing is that a public guarantee has been issued. The OeKB is authorized to raise the necessary funds either domestically or abroad (through loans etc.) and can count on public guarantees from the federal state. This activity is not conducted on behalf of the state but on OeKB’s own account.¹⁷

The goal of this type of promotion is, according to the Act, to achieve transactions that lead to a direct or indirect improvement of the Austrian balance of trade or that are in the interest of Austria. To receive a public guarantee, therefore, a relevant Austrian share of the export or investment must be proven.

As the export credit-refinancing agency, the OeKB is also the key coordination point for concessionary loans in the sense of development aid (“tied loans” or “soft loans”). In statistics of development aid this type of financing count as “ODA¹⁸ loans - frame II”. Apart from the export credit business, the OeKB also fulfills other coordinative and market connecting functions on the capital market.

The OeKB also holds relevant shares in other companies within the area of export credits:

- 70 % of the “Austrian Exports Fonds GmbH” (Inc.) (two more shares of 15% are owned by the Federal Chamber for Economy and the Federal State of Austria),
- 54% share in the private Export Credit Insurer PRISMA AG (the German HERMES Kreditversicherungs-AG (Credit Insurance Inc.) – Germany’s public Export Credit Agency – has 42,2 %, the rest is Free Float),
- 25,1% in the HERMES (Hungary) Kreditversicherungs-AG (Inc.), Budapest
- 25,1% in the HERMES Consult Finanzservice and Consulting GmbH (Inc.), Budapest.

When looking at these participations, it is interesting to note the pronounced and close relationship between the OeKB and the German partner agency. The German HERMES is majority owner of the ALLIANZ-Group, which in turn as recently as March 2001 acquired the Dresdner Bank. Obviously these participations have the purpose of creating synergies between bank and insurance business.

5.2.4 The importance of OeKB financing promotion

Three indicators show the strong position of OeKB in the export business of Austria:

High rate of cover of total exports: According to the OeKB annual business report 2000, the OeKB rate of coverage of their own guarantee system reaches about 7 per cent of total exports. This corresponds with the rate of cover of most ECA in industrialized countries.¹⁹

This rate of cover becomes very relevant when considering that around three quarters of world trade takes place between industrialized countries and the majority of trade is

¹⁶ The mandate to handle public guarantees is regulated by the Export Guarantees Act 1981.

¹⁷ According to the Export Guarantees Act 1981.

¹⁸ ODA – Official Development Aid.

¹⁹ The cover ratio of the 48 ECAs in the Berne Union is reported to be 10 per cent of world exports.

conducted between transnational companies. This is a world where partners know each other and exports are “business as usual” and thus do not need special insurance against general economic and political risks. As already mentioned, exports to other EU, EFTA and most OECD countries are due to competition laws practically excluded from receiving OeKB export promotion support.

Domination of exports outside the OECD area: The rate of cover only for exports outside OECD (where export promotion is still possible) reaches an impressive 67 per cent, which means at least 2/3 of all exports outside OECD are covered by the OeKB guarantee system.

Important role in Austrian official development finance: OeKB’s concessionary loans play an important role in the so-called “Bilateral Cooperation on Development”, the core share of Austrian official aid. These “frame II loans” reached in 1999 40,94million euro, which amounts to 13 per cent of total bilateral aid. Compared to multilateral development aid, the export loans clearly exceed Austrian contributions to international financial institutions (who received 33,11 million euro for 1999).²⁰

BOX 3: STATUS OF LIABILITIES ON 31 DECEMBER 2000 ACCORDING TO REGIONS AND THE THREE MOST IMPORTANT COUNTRIES

The status of Austrian liabilities mirrors very much the pattern of the international economic and debt crisis. The highest figure of OeKB liabilities are towards countries that are in the center of the international economic and debt crisis: Poland, Russia, Turkey, Indonesia, Algeria, Egypt, Argentina, Brazil, etc.

REGION / COUNTRY	Status of liabilities on 31 December 2000	
	in million euro	in % of total liabilities
Europe	9.593	31,8 %
Poland	2.717	9,0 %
Russia	2.627	8,7 %
out of this former Soviet Union	2.577	8,5 %
Turkey	1.280	4,2 %
Asia	4.891	16,2 %
Indonesia	1.522	5,0 %
China (incl. Hong Kong)	1.208	4,0 %
Iran	483	1,6 %
Africa	2.603	8,7 %
Algeria	786	2,6 %
Egypt	567	1,9 %
Cameroon	395	1,3 %
Latin America	943	3,7 %
Brazil	374	1,2 %
Venezuela	138	0,5 %
Argentina	125	0,4 %

Source: Austrian Kontrollbank (OeKB) annual business report 2000

5.3 The EU’s export promotion campaigns

Since Austria joined the European Union the picture of external trade promotion became partly simplified due to the almost total ban on promoting economic exchange inside the EU.

²⁰ Austrian Research Foundation for Development Cooperation (ÖFSE): “Die österreichische Entwicklungszusammenarbeit. Ausgabe 2000“, Vienna, 2000.

On the other hand, the manifold multilateral EU external trade initiatives made the field of external trade promotion much more complicated.²¹

The access to public export funding in the EU has become more complicated since the big promotion programs PHARE (for Central and Eastern Europe including the Baltic states but excluding former Yugoslavia) and TACIS (former Soviet Union) underwent reform.

The comprehensive support programs for EU accession candidate countries are of special importance for the Austrian economy. Additionally, there are several EU programs and international priority programs for the war-damaged Balkan countries.

It is difficult to gain an overview of the comprehensive cooperation pact between the EU and the ACP developing countries (former EU countries' colonies in Africa, Asia and the Caribbean). The EU development aid program with its financing instruments is also a part of this.

Separate promotion programs are also set up for several different free trade agreements.

Of special importance for Austria are the Inter-Reg-Programs for the border regions of Austria, the relevant promotions of cross border trade and investment.

For the traditional Austrian promotion institutions, the EU represents a scarcely used reservoir of new financing opportunities. In many cases there is a lack of relevant agencies which would offer consultancy and contact. Very often exporters have to contact the EU administration in Brussels directly if they want to hand in an application.

The Austrian Economic Chamber had to extend their information and consultation services extensively so as to make it easier for the export economy to access to the new funding possibilities.

With the development of common European foreign trade programs and institutions, such as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), the export promotion system for Austrian companies was restructured.

The shift of emphasis from national to EU level and the wide range of European initiatives did not make the analysis of social and environmental compatibility of export promotion any easier. Additionally, there is a lack of focused research projects in this area.

Because of the multitude of EU programs, the need for professional consulting and PR agencies located in Brussels developed. This commercialization of information and communication in the EU area might become one additional characteristic in the future of promotion policy.

A rough overview of EU conforming promotion in Austria can be found in a handbook supported by Invest-Kredit-Bank.²²

²¹ Jutta Gumpold, "Die Ausfuhrförderung in der EU; Working Papers des Forschungsinstituts für Europafragen, WU", 1996.

²² Hannah Rieger u. Claudia Schmied, "Handbuch EU-konformer Förderungen", Vienna/Frankfurt, Wirtschaftsverlag Ueberreuter, 2000

6 Kontrollbank: the Austrian Export Credit Agency

Guarantees (and the guarantee on a bill²³) for export credits and financing of participations make up the core of public export financing. OeKB is the public Export Credit Agency of Austria and acts on behalf of the state as mandated in the Export Guarantees Act of 1981. The law mandates the OeKB with:

- The examination of applications for the assumption of liability (bankers judgment on financial standing²⁴ and handling)
- The execution of guarantee contracts
- The protection of rights of the Federation arising from guarantee contracts.

6.1 Federal guarantees

The OeKB assumes the liabilities for economic and political risks of an export business on behalf of the Republic and on the account of the Federation.

What is the purpose of these guarantees?

Foreign transactions carry a special risk resulting from geographic distance between the partners, differences in the legal systems, solvency of the partners and the involved nations etc. by receiving OeKB guarantees, the participants save substantial costs and risks for securing their credits.

The normal balance between supplier and buyer or their banks would otherwise have to be secured up to the value of the business transaction. Such expenses would make foreign trade *de facto* impossible. Exporters and importers would block their capital with securities.

Therefore the state established an institution equipped with certain supreme powers that secures the business transaction by taking on a guarantee.

The Export Guarantees Act entitles the Federal Minister of Finance to issue guarantees up to the ceiling of liability, which is laid down in the Export Guarantees Act (currently 30,5 billion euro).

The Federal Minister mandates the OeKB to conduct the banking procedure of this promotion tool. For this purpose, the minister has a state commissioner installed at the OeKB who, however, at the same time also prepares the applications and proposals of the OeKB.

The Federal Ministry of Finance installed an *advisory council* - with a ministry representative as chair – to examine OeKB recommendations for guarantees up to one 1 million Euro. This *advisory council* consists of one representative from the Federal Ministry for Economy and Labor, one from the Austrian Federal Chamber of Economy, one from the Federal Chamber of Labor and one from Oesterreichische Kontrollbank AG (the last without a vote).

For guarantees over 1 million euro an *enlarged advisory council* was established. This comprises representatives of the Federal Chancellor's office, the ministries of Finance, Economy and Labor, Agriculture and Forestry, Environment and Water, as well as the Ministry of Foreign Affairs, the Social Partnership, Chamber of Economy, Federal Chamber of Labor, and the Standing Committee of the Presidents of the Austrian Chamber of Agriculture. OeKB also takes part but does not have a vote.

²³ The issuing of bills as security for export transactions has a long tradition. Additionally, OeKB can grant higher guarantees for business transactions by issuing warranties for such bills.

²⁴ Assessment of the importer and his solvency.

The mandate to examine applications is strictly limited to the mandate given according to the law. The representatives in the advisory councils have to assess the guarantee applications strictly with a view to their contribution to the balance of trade and whether they fulfill the legal requirements. Moreover, the participants of the advisory councils are bound by professional secrecy.

6.1.1 A fictitious export transaction

This simplified example for a public guarantee transaction shows how this procedure usually works:

A company in Austria, T.A. Ltd. agrees with a company in Uruguay, Rio de la Plata S.A., on the delivery of high performance turbines (designed and constructed with a high domestic participation) for a planned plant on the River Uruguay. Before the contract is signed, both partners' securities for the loan have to be settled. Company T.A (or its bank) applies for an export guarantee at the OeKB.

The OeKB handles the application and presents a recommendation for a decision to the Federal Ministry of Finance, which according to the solvency rating of Uruguay usually includes an exporters' uninsured portion of 10-12 per cent.

The Federal Ministry of Finance regularly presents OeKB recommendations to the Council for export financing for assessment whether the applications fulfill legal conditions and contribute to the improvement of the Austrian balance of trade.

The Ministry then gives the OK in principal to granting cover. The government of Uruguay in turn issues then a guarantee. This means that the payment obligation of Rio de la Plata S. A. is passed on to the state of Uruguay in case of a problem.

Only then do T.A. and Rio de la Plata sign the contract on the delivery of the turbines. They agree on payment e.g. within 12 months by installments. The OeKB guarantee is issued and T.A. pays the agreed premium based on the estimated solvency of Uruguay. The turbines are delivered. As agreed Rio de la Plata pays the installments in pesos to the Central Bank of Uruguay.

Then, unexpectedly, it turns out that the Central Bank of Uruguay has international payment difficulties in the euro currency and therefore the sum cannot be transferred to the Austrian company.

T.A. immediately announces the damages to the OeKB and is compensated for the difference on the uninsured portion of 10 per cent, which was fixed in the guarantee contract for the case Uruguay.

Meanwhile in Uruguay, the debt is transferred to the state. In Austria as well the claim is taken over by the state.

If Uruguay continues to be insolvent and does not pay the debt plus interest rate and compound interest (and the OeKB does not succeed to secure the delivery or to make use of it in another way), the case will be decided at the negotiations on debt conversion between Uruguay and the Paris Club (informal forum of creditor states).

Should the Uruguayan government finally pay is the exporter refunded the uninsured portion. The other payments are returned and will be put on an OeKB clearing account with the Federation. According to § 7 of the Export Guarantees Act 1981 shall all amounts for claims payment be credited to this account. In turn, potential costs have to be deducted from this

account. If no credit balance is available, then the Federation has to allocate other budget funds for such payments.

In reality there are of course more subtleties, but on the whole the described pattern stays the same.

6.1.2 Export guarantees

OeKB offers a range of export guarantees at different costs:

- Guarantees for direct deliveries and performances
- Guarantees for service deliveries
- Guarantee financing for leases
- Guarantees for foreign exports to third countries (but only if the export profit is going to be transferred to Austria)
- Guarantees for indirect deliveries and performances (for suppliers)
- Turnover guarantees (for deliveries on a continuous basis)
- Whole turnover policy (with several buyers in different countries)
- Guarantees for securing financing transactions
- Guarantees for securing foreign investments
- Endorsement of bills for financing export transactions etc.

6.2 Export credit refinancing

The second pillar of export financing is OeKB's mandate for export credit refinancing covered by guarantees. The goal of this type of promotion is to provide additional capital at favorable terms for export credits of commercial banks (and OeKB itself). OeKB conducts this promotion business on its own account but it can count on public guarantees from the Federal Minister of Finance if it raises capital (bonds, etc.).²⁵

An example: Bank X applies for export credit refinancing at OeKB. The condition is that the credit is equipped with a promise to grant a guarantee, which is recognized by the Export Guarantees Act. With the favorable refinancing funds of OeKB, the bank frees its balance for other credits.

6.3 Interest rate support

If an Austrian export company also applies for interest rate support for an individual transaction, then the proposal prepared by OeKB will be assessed by an export financing committee (chaired by the Ministry for Finance with representatives of the Ministry for Foreign Affairs and the Ministry for Labor and Economy, as well as the Chamber of Economy, the Chamber of Labor and the National bank and the OeKB, both without vote). Formally it is the committee, which makes the proposal on the interest rate and the loan amount. In any case these promotions are strictly to be notified, this means that they have to be announced to the OECD secretariat in advance. On demand it has to proven, that they are "non-marketable" or that this promotion is serving development.

These procedures are internationally to a very high extent harmonized and regulated in the framework of the so-called OECD Consensus (see "International harmonization efforts").

6.4 Development aid and export credits

Soft loans can with a special procedure be granted under the banner of official aid. Under certain circumstances – a support element of 35 to 50 per cent and development aid criteria

²⁵ See Law on Export Promotion of 1981

are decisive here – concessionary loans with lowered interest rates can be recognized as Official Development Aid – ODA. The Ministry of Foreign Affairs, which has decisive influence on bilateral development aid policies, has to examine whether an export transaction can fulfill development functions.

Also debt relief can be declared as ODA, and this independently of whether the underlying export credit (which can not be paid back any more) was previously booked as ODA or not.²⁶

Those concessionary loans with lower interest rate, which also have an appropriation element, but do not fulfill substantive criteria, are accounted for as Other Official Flow (OOF). They are then not part of official Austrian official aid.

Export credits for financing projects or deliveries to developing countries that do not dispose of lower interest rate (but are backed by a public guarantee), are reported to OECD as “private performance at market conditions”.

In 1999, Austria reported ODA credits of 40,94 million euro, which amounted to 8,28 percent of total official aid. OOF was reported net (new payments – recoveries) with 21,15 million euro, the “private performances” with net 0,5 billion euro.²⁷

OECD has for many years strongly criticized Austria for its practice concerning what type of export credits can be classified as ODA.

The OECD Development Assistance Committee (DAC) specifically criticized the disproportionally high share of export credits out of total official aid. This improved, however, and the decrease in the last years can be linked to the splitting of concessionary loans into ODA and OOF.

However, the DAC opinion that export credits should in general not be reported as official aid since they mainly serve the purpose of export promotion was not accepted. Only the part of concessionary loans with lower interest rate that are public funds should be counted as ODA but not the *total* export credit, as Austria is currently doing it. Austria is alone in reporting in this manner. All other DAC member states have change their reporting procedures.

On substance OECD says that the reported export credits are in not within the context of an official aid program (especially the focal sectors). Moreover, these export credits are not granted to the declared focal countries of Austrian development cooperation, but rather to the usually financially stronger emerging countries.

BOX 4: EXCERPT FROM THE OECD DAC (DEVELOPMENT ASSISTANCE COMMITTEE) DEVELOPMENT COOPERATION REVIEW 2000 FOR AUSTRIA:

The defined OECD development aid guidelines “for environment, women promotion, fighting poverty, good administration, etc. do not receive any special attention when choosing and implementing such export credits. Obviously there is not efficient instrument to monitor and measure the socio-economic impacts or results of these projects”.

²⁶ Debt relief for most East- and Southeastern European states, as well as for richer developing countries (“Countries and Regions in transition”) is being declared as “Official Aid”. In 1999, they amounted to almost 100 million euro. Source: Österreichische Forschungstiftung für Entwicklungshilfe (ÖFSE): “Die österreichische Entwicklungszusammenarbeit“, December 2000.

²⁷ ÖFSE: “Die österreichische Entwicklungszusammenarbeit“, December 2000.

OECD also found serious procedural shortcomings. Section VII of the foreign ministry is responsible for examining the projects, but this is not done until the approval (by the OeKB) of a project has reached a fairly advanced stage. Thus, the examinations of projects can “in many cases only be rudimentary”, especially since the responsible section “in general does not receive the project documentation until a few days before a decisive meeting”. OECD also criticized the fact that the responsible unit in the ministry does not have any possibility at all to control how the projects proceed.

Strict confidentiality is also applied for export credits that are categorized as official development aid. This can be seen e.g. when reviewing the annual report of the Austrian Research Foundation for Development Cooperation (ÖFSE)²⁸, which explicitly points out that the publishing of loans grouped by countries was not allowed, the reason being so that, “conclusions cannot be drawn concerning individual transactions”. The report added, however, that such data can be accessed at any time through publicly available OECD statistics.

6.5 The Austrian Kontrollbank in the eyes of the critics

In spite of the above-described high importance of OeKB for the Austrian economy, there are hardly any reports about the Export Credit Agency’s activities. This could to a certain extent have to do with the low media interest in official development aid. Significant is, however, the relatively passive presswork of OeKB.

The reluctance to give out information on export financing is also criticized by the politically responsible Federal Ministry of Finance. There exists no active information policy concerning the ongoing negotiations for ECA reform at the OECD (see international harmonization efforts).

Due to the lack of information it is practically impossible to get a clear picture of the Austrian attitude towards the new demands on export financing.

A critical and fair analysis of export financing can hardly be achieved under these conditions.

6.5.1 Critique of the OeKB so far

The crisis of the executive board at the end of the 1990s was a critical moment of OeKB and the public was a witness of this.

The following discussion hardly touched on the actual business practices or activities of OeKB and it stayed on a superficial level addressing personnel policy decisions. However, it did have some consequences for the discussion inside the institution.

On this occasion, members of the supervisory board also made themselves heard. They came with critique concerning the decision-taking structures at the OeKB and the dominance of private banks due to their majority participation.

However, these differences in opinions were not discussed in the public, but one can assume that there were also conflicts concerning export-financing practices.

6.5.2 Political influence on the OeKB?

There are countless examples of politicians getting involved in certain projects connected to export financing. However, this does not address the heart of the matter. The question to be

²⁸ Austrian Research Foundation for Development Cooperation (ÖFSE): “Die österreichische Entwicklungszusammenarbeit. Ausgabe 2000“, Vienna, 2000.

answered is whether politicians' interventions also have gotten projects approved that are on the very limit of the guarantee guidelines.

In principal, politics should actively create the guidelines for granting public funds. It would certainly also be desirable to have this discussed more actively in the public and in the parliament.

The question of political influence on the OeKB certainly has to be asked anew and differently taking into consideration the new ownership of banks that were once state-owned but are now privatized.

6.5.3 Who decides?

Another legitimate question to ask is, who takes the decisions? Is the tail wagging the dog?

Looking at the decision structure in the OeKB supervisory board could give the impression that majority participations would have an important influence on OeKB policy concerning export credits. This would mean that certain banks as customers (application for guarantees, refinancing of export credits etc.) also exert a certain influence on OeKB's decisions.

That the influence of certain banks on OeKB is a problem is confirmed by the statement by a leading manager of Raiffeisenbank who expressed serious doubts about whether the promotion of the Austrian economy is still possible when the majority owners of OeKB are foreign banks.

This statement hints at possible tensions inside export financing.²⁹

The Export Guarantees Act of 1981 clearly defines the OeKB as acting on behalf of the Federation and limits its role to clearly technical matters. The question is who is acting and who follows orders?

Certainly the lack of rules for political framework conditions of export financing – from the perspective of the politically responsible people (both government and parliament) – gave the interface, public administration/OeKB, plenty of room to maneuver.

In the daily routine of activities OeKB has an absolutely dominating position. The bank does not only have the expertise and the qualified employees at its disposal but it also handles the contact with the clients (banks), the information about the receiver and thus has a head start to get acquainted with the project applicant.

Because of flood of applications, the public administration and the advisory councils have to process them quickly without real capacity to thoroughly examine these applications. In view of this situation, it is easy to see how OeKB could take over also informal decision competence from the public administration.

The Court of Auditors report of 1997 gives several hints to this and clearly criticizes this development. This will be described later.

6.5.4 Control of Kontrollbank

In 1997, the Court of Auditors scrutinized OeKB and accepted in its report³⁰ the close cooperation between OeKB and the bank with the argument that due to OeKB's lack of

²⁹ Director of Raiffeisenverband Salzburg, Manfred Holztrattner; Wirtschaftsblatt On-Line 2 February 2001.

³⁰ "Nachtrag zum Tätigkeitsbericht des Rechnungshofes, Verwaltungsjahr 1997", see <http://www.rechnungshof.gv.at>

customer contact, the exporters' banks should be involved concerning the issuing and handling of liabilities. On the other hand the Court of Auditors has serious doubts about the "dual role" of commercial banks as owners and direct clients of OeKB.

According to the Court of Auditors' critique, this set up cannot "exclude conflicts of interest per se". "Of course, there could arise differences between the economic interests of commercial banks and the Federation's interest in the national economy".

The finance minister did not answer to this critique but OeKB's management asserted that it "is equally committed to all owners" and that its relationship towards the minister of finance "is completely based on trust".

The Court of Auditors also states in its report that the examined business transactions were remarkable in that the "advisory councils and consequently the minister of finance followed the OeKB AG's proposals without exceptions".

Furthermore, the Court of Auditors observed that, "... controversial projects seldom were discussed by the advisory council but were instead discussed at meetings on guarantee policy. At these meetings were also decisions taken on applications close to the limits of the guarantee guidelines..."

In particularly one case (an electro-steel plant in Indonesia) the Court of Auditors implies that the advisory council's decision was influenced from the outside to an unusually high degree. Initially, and exceptionally, the council rejected the proposal with a majority. At a later meeting the proposal – unchanged – was tabled again and accepted.

The Court of Auditors criticized the ministry's ability to control by referring to the fact that the ministry's civil servant is appointed as state commissioner at the OeKB with co-decision power and is at the same time also the chairperson of the council, whose mandate is to assess OeKB's proposals. The Court of Auditors warns in this context of the dangers of "self supervision".

6.5.5 Inflexible creditor politics

The Court of Auditors indirectly criticized OeKB's creditor politics. Due to the non-existence of rules on how to assess outstanding debts, they stay at their nominal value on the books instead of being corrected to their actual value. The Court of Auditors stated, "as long as claims are not dropped altogether or partly, they count as recoverable". In this manner, claims are actually being kept on the books.

On this issue, the ministry of finance answered that this is sending the wrong signal to the creditor; it could be misunderstood as a willingness to (partly) drop the claim.

Other industrialized countries (like Great Britain or the US) use a more flexible policy towards creditors. For instance, they undertake cumulative value adjustments on outstanding credit claims on a continuous basis. This makes it possible for other industrialized countries to accept politically motivated debt reliefs since a sudden write-off would not mean so high losses for the creditor country.

6.5.6 Doubting the sustainability of the promotion system

In its critique of the debt policy, the Court of Auditors also expressed general concerns about the sustainability of the promotion system in its current form.

In the view of the increasing engagement of public export financing in ever riskier markets, higher losses and a growing burden for the state budget will become more likely, the Court of Auditors concludes.

6.5.7 Environmental and social guidelines

Meanwhile, more ECAs have introduced monitoring criteria for the environmental impact of projects. By introducing such guidelines, practical experiences should be gathered and used during the OECD negotiations for “Common Approaches” to environmental guidelines. OeKB is not an example of “good practice” because they only use non-binding environmental guidelines.

The so-called “Screening” (monitoring) process should also serve the in 1999 agreed upon information exchange on environmental risks of projects with an amount of cover exceeding 100 billion USD.

Without much attention, OeKB introduced during 2000 a new evaluation dimension concerning project risk. As not to scare away applicants, the claims were initially not set so high.

A so-called “Environmental Protection Questionnaire” for all guarantee applications over 10 million euro for supplies within the framework of international large-scale projects over 100 million USD was prescribed. (see <http://www.oekb.at>).

Applicants have to answer five very general questions concerning the site, potential environmental damage involved, the role of the company during implementation of the project and potential resettlement of local populations. In exact wording, the questionnaire asks, among other things, “to what extent can the project use up extensive amounts of resources (energy, water, land)”.

Since the non-structured questionnaire does not ask for standards, precise data cannot be expected from the answers.

Compared with other agencies’ questionnaires, OeKB’s is among the ones with least informational value. The Swiss Export Credit Agency ERG e.g. has developed a comparably demanding, structured and technically oriented environmental questionnaire that can be expected to deliver more relevant data (see <http://www.swiss-erg.com>).

The difference lies not only in what method was used to create the questionnaire, but also the matter itself is also taken more seriously. For the Swiss agency it is obviously important to enter into binding cooperation with the technical management of a company already when the application is handed in. In short, the Swiss questionnaire is not a checklist that could simply be filled out by a PR department.

Already in the introduction of the questionnaire the applicant is asked whether the project fulfills Swiss, or EU, or World Bank norms. If not, the applicant is asked to explain in detail where the differences lie and what the motivation for this is. With other words, they confront the applicants already in the beginning by setting very high standards.

In addition, the structured ERG questionnaire hardly leaves space for excuses, but forces instead the applicant to make clear statements on clear-cut standards. In the end the exporter has to sign a binding declaration confirming the correctness of his answers in the questionnaire.

The examination guidelines introduced by the OeKB follow to a large extent the structure of the preliminary drafts of the OECD negotiations on “Common guidelines”. The projects

recognized in the application as “sensitive” are then examined closer by the OeKB itself. This could lead to demands like an Environmental Impact Assessment (EIA), which, however, will be conducted by the OeKB itself (possibly with external experts).

What is remarkable about the OeKB guidelines is that gene technology is included in the list of “sensitive sectors” (together with power plants, oil and gas, chemical factories, forestry, traffic infrastructure, mining, waste treatment, pulp and paper industry and steel plants).

The guidelines mention a wide range of problems (including social questions, cultural goods, emergency plans, local capacity building, etc.), but they do not prescribe any standards for the assessment of risks.

The reference to that the legal standards of the receiving country have to be recognized should rather be seen as a matter of course.

The lack of clear conditions gives the impression that the question of whether a project is compatible with the protection of the environment is to a large extent left to the judgment of OeKB’s project department.

Interestingly, one of the few clear sentences in the new guidelines refers to the refusal of standards:

“It should be noted THAT THERE ARE NO MANDATORY PRE-SET STANDARDS TO THE ASSESSMENT”.

6.5.8 Who is more transparent than Austria?

There is probably no other industrialized country that handles the obligation of secrecy concerning export financing stricter than Austria.

Below are examples of countries with more transparency and more readiness to cooperate with NGOs, and this without competition disadvantages as consequence:
(data given: Country and name of ECA)

Australia, EFIC

Access to category A projects (with high environmental risk). Environmental Impact Assessments (EIA) are published at the latest 45 days before decision taking. The annual report details transactions of all projects.

France, COFACE

This ECA announced to publish a list with all projects for which a guarantee was assumed.

Japan, JBIC

In April 2001, a regulation entered into force forcing JBIC to release, on demand, information about projects. The council on the reform of JBIC includes NGOs.

Norway, GIEK

The release of information usually takes place after contract signature.

Sweden, EKN

The Swedish ECA agreed to release certain information on projects that are already signed.

Switzerland, ERG

Some Swiss NGOs are continuously being informed about “important” projects, and this before the guarantees are granted. These NGOs are also being consulted on the planned reforms of the export credit system.

UK, ECGD

Information on demand.

USA, EXIM

Project name, location and description are published on the homepage. A decree is in preparation, which will prescribe the publication of Environmental Impact Assessments 60 days before the board takes a decision.

Germany, Hermes

Publishes on the homepage business transactions over 15 million euro after the guarantee has been granted, but only with consent of the exporter concerned.

7 Demands from nongovernmental organizations

7.1 ECA-Watch demands

The ECA-WATCH Campaign is supported by a network of environmental, human rights and development groups and organization from North and South, East and West. ECA-WATCH is campaigning for a reform of public Export Credit Agencies (ECAs).

These organizations demand from the G8 governments and other governments of OECD countries to increase the pressure on the ECAs, so that acceptable environmental, social and human rights guidelines can finally be laid for export financing in the foreseeable future.

Therefore the NGOs welcome the recommendations of the G8 environment ministers at their meeting in March 2001 in Trieste³¹, who among others called urgently upon the ECAs to decide “common binding guidelines” on the level of the standards used by the EBRD (European Bank for Reconstruction and Development) or the World Bank daughter IFC (International Finance Corporation). Furthermore the ministers asked the ECAs to be more transparent on their activities and to adopt the recommendations of the World Dam Commission.³²

These reforms should according to the NGO demands lead to a permanent process of renewing and improving of the standards for public export financing.

The development of standards and guidelines should take place in close coordination with the NGOs and the affected communities.

ECA-WATCH supports the demands of the Jakarta Declaration³³:

- Transparency, public access to information and consultation by ECAs and the OECD ECA Working Party;
- Binding common environmental and social guidelines and standards that are no lower and less rigorous than existing international procedures and standards for public international finance such as those of the World Bank Group and OECD Development Assistance Committee;
- The adoption of explicit human rights criteria guiding the operations of ECAs;
- The adoption of binding criteria and guidelines to end ECA abetting of corruption;
- The adoption of a commitment only to finance economically productive investments;
- The adoption of comprehensive relief for developing countries for ECA debt.

Furthermore ECAs should:

- stop the promotion of exports of arms and other military goods;
- redirect the promotion from fossil fuels to clean energy technologies;
- introduce a public climate protection balance of their promotion activity that shows the caused greenhouse gas emission;
- redirect their activities towards productive exports: guarantees should be provided for renewable energies instead of nuclear power plants and large dams;

³¹ See chapter 4 “International Efforts towards Harmonization”.

³² See chapter 4 “International Efforts towards Harmonization”.

³³ See Annex.

- support the goals of international environmental conventions, e.g. the Kyoto Protocol to the UN Framework Convention on Climate Change and the Biodiversity Convention, etc.

7.2 Austrian NGO demands

As the Austrian Export Credit Agency, Kontrollbank supports Austrian companies' engagement in projects in developing countries. These projects receive public support in the form of credit guarantees and refinancing. In case credits are not paid back and the OeKB cannot cover the losses with the guarantee procedure funds any more, the taxpayer is liable and has to pay in the end.

Although OeKB works on behalf of the Republic of Austria (this means on behalf of all Austrians), the projects handed in by the companies are currently not examined by any clearly defined social, environmental or human rights standards – with the exception of so-called Soft Loans, which can be accounted for as ODA or OOF. Even standards used in Austria are not being applied.

The Austrian Kontrollbank and the advisory committee, who decide on guarantee and refinancing applications, keep strict confidentiality. Neither the parliament nor the Austrian public (especially environmental, human rights or development NGOs) are informed about planned or implemented sensitive projects.

Not only from the development, human rights or environmental protection aspects is the current practice of absolute secrecy acceptable, but it also does not fulfill the demands of sufficient democratic control.

Erlassjahr 2000 Austria, Greenpeace Austria and WWF Austria therefore call upon Minister of Finance Karl-Heinz Grasser to implement the following measures in Austria. We urgently ask Director Rudolf Scholten of the OeKB to support these measures towards the responsible decision takers.

Transparency

OeKB shall make information on projects that are rated as sensitive available to the public, especially environmental, human rights and development NGOs and the parliament. Information must be available already during the assessment period of a project (see also social and environmental assessment procedure). For this purpose it is necessary to be less strict about confidentiality as laid down in the Export Guarantees Act (section 5(6)).

The parliament and the NGOs should also be involved in the setting up of new environmental, social and human rights criteria. This also necessitates changes to the Export Guarantees Act.

Clear environmental, social and human rights standards

Kontrollbank should introduce clear environmental, social and human rights standards following the example of the World Bank, the OECD Development Assistance Committee (DAC) and the recommendations of the World Commission on Dams.

The standards should include a list of projects that should not receive support (examples: nuclear power plants, weapons exports, infrastructure and mining projects in pristine tropical forests, dams with serious impacts for the environment and local population, projects requiring the resettlement of more than 5000 people, projects with an impact on World Heritage Sites, national parks, Protected Areas of category I–IV of the International Union for the Conservation of Nature IUCN and protected areas under the Ramsar Convention, etc.)

Social and environmental assessment procedures

The fulfilling of environmental, social and human rights standards should be guaranteed with a procedure similar to an Austrian EIA (Environmental Impact Assessment). It should contain the following steps:

Completion of a questionnaire on environmental, social and human rights aspects by all companies involved in a project – independently of the project value. The exporters should involve independent consultants in projects with a value above 726 000 euro.

Review of these data by OeKB – with support of independent consultants for projects above 726 000 euro – and categorization according to above-mentioned standards into three categories: (A) no impacts, (B) medium impacts, and (C) serious impacts on human rights, environment, social situation and sustainable development in the affected country.

For category B and C projects public participation is necessary (announcement of projects on the OeKB web page according to country/project/category).

A strict assessment procedure, similar to the criteria used by World Bank, DAC and World Commission on Dams, with rights as a priority for affected people.

Development, human rights and environmental NGOs to be member of the Enlarged Advisory Council at the Ministry of Finance

The Enlarged Advisory Council at the Ministry of Finance, which approves the support for projects exceeding the size of 726 000 euro, represents the interests of trade unions and industry, but not of development, human rights and environmental NGOs. Because of the potentially massive impacts of the supported projects, we demand the acceptance of development, human rights and environment NGOs into the advisory council.

8 Arguments for OeKB reform

This section addresses a broad range of concrete problems showing that the need for reform of public export financing is also in Austria very pressing.

International Export Financing: A horror scenario – that unfortunately is real

By Bruce Rich, Environmental Defense, Washington

“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”.

Excerpt from Bruce Rich: Exporting Destruction; The Environmental Forum – The Policy journal of Environmental Law Institute; USA; Volume 17, no. 5, September/October 2000

8.1 OECD study calls for consistency between environmental and economic policy

The first comprehensive analysis by OECD on environmental problems gave according to their own words “alarming” results.³⁴ Now they warn against irrevocable environmental consequences for the economy in the next 20 years unless drastic rethinking takes place.

“It is not possible any more to distinguish economic and social policy from environmental conditions”, said Joke Waller-Hunter, director OECD Environmental Directorate, when calling for urgent reforms of economic policy at the presentation of the study in early April 2001.

The study calls for a halt of all environmentally destructive promotion and the introduction of a stricter ecotaxes.

³⁴ The text of the study is available on the homepage: <http://www.oecd.org>.

The environmental challenge is getting more and more complex, the study points out. Environmental compatibility requires complex procedures and international cooperation.

In the field of the energy the OECD recommends using alternative energy sources and a parallel decrease of energy consumption in industrialized countries by 20 per cent.

8.2 Eastern and Southeast European export focus

At an event organized by the Federal Economic Chamber in mid March 2001, Ewald Nowotny, Vice-president of the European Investment Bank (EIB), and Rudolf Scholten, director of Austrian Kontrollbank (OeKB) agreed that Austria should play a big role in the reconstruction of the Balkan, especially Yugoslavia.

“We want to be the number one insurer for business with Yugoslavia”, said Scholten when he announced the special focus of the public export agency, which had plans to become the groundbreaker for the EU in the Balkans.

EIB, which according to Mr. Nowotny concentrates on the construction of infrastructure, financed 36 billion euro in the region in the year 2000 alone and became the “world biggest development bank”.

EIB engagement focuses on road construction (about 75% of the funds). The rest is spent on energy projects and the construction of railroad tracks.

Because the EIB only finances up to 50 per cent of project costs, cooperation with other finance institutes on national level is needed.

The Balkans provided “for the second time in one generation a big market” opening. “This is a historic chance we should make use of”, Scholten pointed out referring to the bomb damaged Yugoslavia, which “already earlier” – ten years ago – had reached Central European standard.

Also Austrian Trade (AWO), the foreign trade organization of the Austrian Federal Economic Chamber sees the need to establish special institutional help so that the Austrian economy can profit from this chance. The AWO demanded OeKB to focus on export financing in this region, especially Yugoslavia.

The planned involvement raises a number of questions concerning export financing:

- The chances for the Austrian economy in Eastern and Southeastern Europe imply special responsibilities for contributing to a sustainable development. If public funds for export financing shall be used for sustainable development in Southeastern Europe, then it would be necessary to set preconditions to make sure that the promoted projects are socially and environmentally compatible. Are there any binding standards and checks? Are consultations with civil society in the host countries planned?
- A special financing program for the Balkans also has to ensure a broader sensitization of public opinion in Austria. Will OeKB be transparent on the promoted projects?
- The Austrian population can be affected by projects in neighboring regions. Will there be more involvement of civil society in Austria?
- Still to be resolved before OeKB gets involved in Yugoslavia is also the question of the 1,58 million euro that Yugoslavia has in outstanding debts towards Austria. This is dealt with within the framework of the Paris Club (debt forum of creditor countries). Will Austria call for a new role for creditors that makes sense also for the taxpayers and that contributes to sustainable cooperation with indebted countries?

8.3 What are the ECAs up to in Africa?

Public Export Credit Agencies are playing an increasingly important role in several African countries.³⁵ A large share of African countries' foreign debt is towards ECAs. Examples are Nigeria (with 24,8 billion USD, which amounts to 71% of total debts), Lesotho (58% of total debts), Gabon (55%), Congo (42%), Democratic Republic of Congo (33%), Cameroon (31%) and South Africa (6,1 billion USD, 21%).

In some of the poorest countries in the region, like Chad or Mozambique, the total value of projects guaranteed by ECAs is often more than half of the value of the Gross National Product (GNP).

Almost half of ECA promotion happens within the oil sector. Investments into mining are also heavily promoted by ECAs.

The cases presented by the US environmental organization Environmental Defense refer to two dams, a large-scale oil project and three different industrial projects. All projects suffer from mismanagement, environmental problems, corruption, and increased social conflicts. These conflicts are promoted by ECAs in the sense that ECAs do not apply an investment policy focused on development aid.

A good example of an ECA project in Southern Africa is the Chad-Cameroon oil pipeline where ExxonMobil, Malaysian Petronas and Chevron are involved. The oil pipeline leads straight through the rainforest; and this in a country internationally known for massive human rights violations and corruption. According to international reports, the Chad government used the first installment for the project to buy weapons to a value of 25 million USD. *(For more about the role of Austrian export promotion in Africa, see the following section on indebtedness).*

8.4 Public guarantees for industrial ruins in Africa

Export Credit Agencies are very important creditors for the developing countries.

In 1999, ECAs held at least a quarter of developing countries' foreign debts (out of a total of 2,2 trillion USD) and more than half of foreign debt that developing countries have towards public creditors (including international development banks).³⁶

Austrian loans (equipped with public liabilities) granted to developing countries with low to medium income reached at the end of 1997 an amount of around 8 billion Euro.³⁷

Vienna does not continuously adjust outstanding debts to market value. Instead, they stay at nominal value on the books. This practice is presented in the above-mentioned Court of Auditors report.³⁸ The Ministry of Finance and the bank management resist the adjustment of debts to market value since this might give the impression that Austria would be willing to relieve the debts. This argumentation is a bit odd since it usually is about *internal* value adjustments and these certainly do not reduce the debt of the country concerned.

³⁵ Bruce Rich, Korinna Horta, Aaron Goldzimer: Export Credit Agencies in Sub-Saharan Africa; Environmental Defense, 2001. Study can be found on: <http://www.environmentaldefense.org>

³⁶ The Berne Union: "2001 Yearbook", London, 2001.

³⁷ Martina Neuwirth und Barbara Rohregger: "Zukunft ohne Schulden. Alternativen zur bisherigen Gläubigerpolitik Österreichs gegenüber den hochverschuldeten Ländern Afrikas, Asiens und Lateinamerikas", ÖFSE-Edition 11, Vienna, 2001.

³⁸ "Nachtrag zum Tätigkeitsbericht des Rechnungshofes, Verwaltungsjahr 1997", see <http://www.rechnungshof.gv.at>.

Indeed, this debt policy has, in the case of internationally agreed debt relief, the disadvantage that very high values still are on the books. The write-off of these high assets cause high losses – in reality these high assets have much earlier been regarded as non-repayable and exist only for the “beautification” of the balance on the books.

The question in Austria is: for which purpose do the developing countries have these debts towards Austria? For what will the taxpayer pay when the debtor cannot fulfill its obligations?

Debt servicing of developing countries very often exceed the budget for health care and education. These heavy burdens on budgets make an effective fight against poverty and crisis impossible.

The recent past has showed over and over again how volatile debt crises in developing countries can be. The crises in Mexico, Brazil, Indonesia, Argentina etc. have showed how dangerous these impacts can be on the whole international finance system.

The debt crisis in Cameron is a good example of where Austrian export promotion participated.³⁹

For the last twenty years the impoverished population of this West African country has been paying back a loan for an industrial ruin constructed by Austrian banks with guarantees of the Austrian Republic.

Cameron debts towards Austria: Status 1997 (million euro):⁴⁰

Rescheduled loans	251
Claims for loss	26,5
Insured, non-rescheduled loans	73,4

According to the Kontrollbank business report, Cameron’s outstanding liabilities amounted to 395 million euro.⁴¹

The majority of the rescheduled loans stem from the financing of the failed “Cellucam project”. The pulp factory Cellucam, which was constructed by VOEST in 1980, never functioned faultlessly due to technical problems. Unrealistic profitability ratio and incorrect estimates of world markets turned the plant into a problem case. After an explosion in 1981 Cellucam was permanently closed down and is today an industrial ruin. Besides serious ecological consequences, the plant left behind debts for Cameron.

The following comparison shows how the relative burden between debt relief and debt servicing:⁴²

The population of Cameron has to pay 3,5 % of their GDP to pay back the debts towards Austria.

The Austrians would have to pay 0,11 % of their GDP to free Cameron from its debts. The ration between the efforts of Cameron and Austria: 1:32

³⁹ Martina Neuwirth und Barbara Rohregger: “Zukunft ohne Schulden. Alternativen zur bisherigen Gläubigerpolitik Österreichs gegenüber den hochverschuldeten Ländern Afrikas, Asiens und Lateinamerikas”, ÖFSE-Edition 11, Vienna, 2001.

⁴⁰ Erlassjahr 2000 Österreich: “Zukunft ohne Schulden?“, ÖFSE-Edition 11, Vienna, 2001.

⁴¹ Österreichische Kontrollbank AG: Geschäftsbericht 2000, Vienna 2001.

⁴² Erlassjahr 2000 Österreich: “Zukunft ohne Schulden?“, Media packet from 5 April 2001.

Reform of the OeKB guarantee system:

Austria urgently needs to develop its own creditor policy towards indebted countries in Africa, Asia and South America. This would be in the interest of the Austrian taxpayer and productive cooperation with developing countries.⁴³

8.5 Environmental destruction in Indonesia

The ECA played an extraordinary role in financing and promoting investments and exports to Indonesia, investments that are very damaging, both environmentally and socially. It carries a big responsibility for the plundering of the rich natural resources of this country. Indonesia's guarantee obligations towards ECAs increased by 25 per cent between 1992 and 1996. Around one quarter of total obligations were in 1996 owed to several Export Credit Agencies (28 billion USD) and almost all stemmed from the promotion of foreign investments in gigantic projects.

A report prepared by the Environmental Defense together with the Indonesian organization BIOFORUM gives an overview of 33 projects at a worth 15 billion USD, which were promoted by ECAs in Indonesia between 1994 and 1997.⁴⁴

The 10 largest projects totals 12,4 billion USD and amount to 83 per cent of the total sum. Among these 10 projects, the pulp and paper industry has the highest share. In second place comes the Paiton coal plant in Java. In third and fourth place follow mining projects and the oil refinery for the state oil company "Pertamina".

The eye catching characteristic of this unique boom of export financing from North America, Western Europe and Japan to Indonesia was the close link between large projects and the members of the Suharto family and its cronies. The corrupt environment and the corrupting influence of export financing could not be distinguished any more.

8.6 Case studies

8.6.1 Clear cutting in the Indonesian rainforests: paper-mill "Indah Kiat" and pulp and viscose plant "Inti Indorayon Utama"

A blatant example for double standards in public export financing is the pulp and paper industry in Indonesia. The member states of the "Consultative Group on Indonesia" (CGI) – a creditors' forum established to coordinate high investments – have several times called upon the Indonesian government to protect the rainforests. At the same time, however, CGI members have been heavily involved in the development of the Indonesian pulp and paper industry, which, it has been proven, is dependent on illegal logging in rainforests. The clear cutting in Indonesia has to a decisive extent been caused by public ECAs in Europa, Japan and North America.⁴⁵

During Indonesia's boom in the 90s, ECAs from Japan, Germany, Sweden, Finland, USA, Austria, Denmark, Canada and Italy competed against each other for the promotion of the wood and paper product manufacturing industry in the region. The current situation of the sector is characterized by high overcapacity, massive clear cutting in the forests, human rights violations, extreme indebtedness and financial bankruptcy.

⁴³ For this the NGO movement Erlassjahr 2000 made precise proposals for Austria.

⁴⁴ Stephanie Fried, Titi Soentoro: "Export Credit Agency Finance in Indonesia", Environmental Defense and Bioforum, 2001, see <http://www.environmentaldefense.org>.

⁴⁵ C. Barr: "Profits on Paper: The Political Economy of Fiber, Finance and Debt", in: Center for International Forestry Research (CIFOR) and WWF: "Indonesia's Pulp and Paper Industries", 2000.

Out of the 100 million m³ wood used by the pulp and paper industry between 1988 and 1999, only 8 per cent stem from plantations. According to the Center for International Forestry Research (CIFOR) and WWF, around 40 per cent of the wood probably stemmed from illegal logging in the rainforests.⁴⁶

Today Indonesia is the biggest and cheapest pulp and paper producer worldwide, and this could only be achieved with European assistance. In spite of massive protests from environmental and human rights organizations, European governments repeatedly granted guaranteed export credits for new factories in Indonesia. From an economic perspective, the granting of these export guarantees seems to make sense: Indonesia has wood resources, cheap labor and, chiefly, much lower environmental standards than Europe. Moreover, outdated and environmentally unfriendly production methods can be used there and bring profits.

Everyday life in the Indonesian paper industry

Austrian companies, banks and the Austrian Kontrollbank also participated in the Indonesian pulp boom. The Austrian state backed guarantees in Indonesia for 1,52 billion euro for export credits.⁴⁷ This is the largest sum for liabilities in a developing country including China and in third place worldwide (after Poland and Russia).

In October 1996, Austrian involvement in the paper-mill “Indah Kiat” in Perawang, Sumatra, which belongs to the Indonesian paper concern “Asia Pulp and Paper” (APP)⁴⁸, attracted attention. Austrian banks (Creditanstalt-Bankverein and Erste Bank) supported in 1996 APP with export financing – with OeKB guarantees over 21 million USD. The machines were supplied by the Austrian company Andritz and Simmering Graz Pauker.

APP is a left over from the previous economic boom in this region. The company is registered in Singapore where it is also quoted on the stock market. APP seems to be owned – through a very complicated mechanism – by an influential family in Indonesia that has secured itself with guarantees by the Indonesian state worth billions. Meanwhile, the state of Indonesia is practically bankrupt.⁴⁹

“Indah Kiat” is one of the most notorious cases within the Indonesian paper-mill business. The modern equipment contrasts the environmentally destructive method of production of this cash cow. Already by 1993 the illegal rainforest logging by “Indah Kiat” had attracted so much attention that the company was forced to pay an exemplary sanction of 1,4 million USD.

In 1999, the company still bought 87 per cent of its wood from logging in primary forests and not from plantations. In the last 12 years, this company alone has caused the clear cutting of 278 000 ha rainforest.⁵⁰ The company’s management has founded several model plantations but keeps postponing the goal of attaining wood self-sufficiency from its own plantations. Currently the goal is 2007.

⁴⁶ C. Barr: “Profits on Paper: The Political Economy of Fiber, Finance and Debt”, in: Center for International Forestry Research (CIFOR) and WWF: “Indonesia’s Pulp and Paper Industries”, 2000.

⁴⁷ Status on 31 December 2000, according to Oesterreichische Kontrollbank: “Geschäftsbericht 2000“, Vienna, 2001.

⁴⁸ According to stock exchange data in Singapore – where APP is quoted as the second biggest paper company in Asia – 77 per cent of paper production and 50 per cent of APP profit comes from the Indah-Kiat-factory.

⁴⁹ “Pulp and Paper In shreds”, *The Economist*; 17 March 2001.

“Paper leaders join creditors circling trouble group”, *Financial Times*, 22 March 2001.

⁵⁰ C. Barr: “Profits on Paper: The Political Economy of Fiber, Finance and Debt”, in: Center for International Forestry Research (CIFOR) and WWF: “Indonesia’s Pulp and Paper Industries”, 2000.

In an effort to have plantations as close as possible to the factory, the company occupied, logged, and planted fast-growing acacia on land belonging to the Sakai people. In one go, the Sakais lost practically their whole livelihood. Again in 2001, dozens of families, mostly Sakai, had to flee the village of Betung when military troops of the lumber company PT Arara Abadi – supplier for the paper-mill “Indah Kiat” – attacked them with batons. According a local doctor were numerous people severely injured during the unexpected attack.

In an attempt to protest against the illegal plundering of their lands, villagers had peacefully occupied a road leading to the forest area of the PT Arara Abadi. There had already for years been latent conflicts between the Sakai and the pulp and paper companies in the region. Arara Abadi is not an isolated case. Illegal logging and illegal fire logging is meanwhile a feature of everyday life in Sumatra. The pressure on un-logged forest keeps increasing since production capacities are still growing. Paper production increased more than sevenfold since 1987.

One of the most prominent Indonesian environmental organizations, WALHI, published a report on the consequences of the Siak river contamination, caused by the paper-mill “Indah Kiat”. The report details devastation of fish stocks and breakouts of skin diseases.

In one account, an old woman says that “the skin rash keeps returning again and again”. Her doctor tells her that the river water is the cause for her disease. “At night when everyone is asleep, they let the dirt out”, claims the woman. The Indonesian doctor Trabanni Raab has been monitoring the impact of “Indah Kiat” for years and is treating hundreds of patients that have fallen ill due to the toxic wastewater and the clouds of chlorine gas. He complains over that he can only treat the symptoms. He cannot do anything about the causes since the people are forced to use the river water. He demands the closure of this “toxic factory” (Source: “Guaranteed misery”, Arte-Film, 2001).

The pulp and viscose plant “Inti Indorayon Utama” (IIU), also in located Sumatra. is another catastrophic project. This company is one of the most infamous environmental sinners in Indonesia.⁵¹ IIU is responsible for the clear cutting of tens of thousands of hectares of primary forest. Reason: to replace with fast-growing eucalyptus plantations. Effectively, the forest is taken away from the traditional community and local wood carvers are today forced to “steal” wood from their own forest.

Moreover, the factory discharges large amounts of toxic wastewaters into the Asahan river, which also leads to contamination of close by wells. The population along the river suffers from skin rashes and the fish stock is decreasing. The wastewater is so aggressive that turbines of power plants further down the river corrode. Badly constructed forest roads causing landslides add to the “list of sins”: a landslide in 1989 killed 13 people.

Austria is present also in these endeavors: The machines for IIU come from the Austrian company SGP (Simmering-Graz-Pauker). The bank Girocredit granted together with other international banks a loan to IIU. Kontrollbank is likely to be involved as well, but this is hard to confirm since the ministry of finance refuses to give out any information.

Villagers and environmentalists have been fighting the factory for a long time: In 1989, angry farmer women tore out 16 000 eucalyptus saplings after the company took away their land.

The conflict culminated in 1993 when a pipe exploded releasing toxic chlorine gas destroying several houses. 600 angry villagers stormed the factory and set fire to several buildings. In 1998, hundreds of demonstrators set fire to vehicles, houses and shops. Protests erupted when the police tried to break up a street blockade. The demonstrators blocked the street leading to a sawmill. They protested against the restart of clear cutting on the Island of

⁵¹ Alexis Wiederstein, “Nach uns die Papierflut“, Greenpeace, 1993.

Samosir on Lake Toba. A company spokesman said the demonstrators hijacked company trucks holding the drivers as hostages. Several days later hundreds of demonstrators set fire to 13 trucks of PT IJU that were loaded with lumber.

In 1999, tens of thousands demonstrated against the pulp factory IJU in North Sumatra. They demanded the government to order the closure of the factory, which they accuse of destruction of the environment, the production of horrible stench, destruction of forests around Lake Toba, and causing a dramatic decrease of the lake's water level.

Another example: In January 1999, hundreds of angry villagers attacked the facilities of the companies P.T. Indo-Bharat and P.T. South Pacific Viscose in West Java. It was the persistent stench of sulfur gases that upset the population. During protests at P.T. South Pacific Viscose – where the Austrian company Lenzing AG is heavily involved – one administration building, two buses and security equipment at the factory entrance were damaged. People have long-standing demands for compensation for health damages caused by air pollution.

The extent of social, ecological and economic disaster in Indonesia, as it gradually becomes visible, has led to strong concern only in some countries from where these projects were promoted.

The Swedish Export Credit Agency drew harsh conclusions from the growing criticism of local peoples and the Swedish public and ordered an independent evaluation of the projects. The Finnish ECA, also a big player in Indonesia, joined this project.

Until the result of the independent evaluation were ready to be presented, both ECAs agreed (despite strong industrial lobby in both countries) on a complete stop for new guarantees for deliveries in this sector.

According to the Swedish Export Credit Agency EKN were also Kontrollbank and Hermes in Germany invited to join this evaluation but both more or less ignored this initiative.

According to unofficial information of Kontrollbank, it did not receive an invitation: there is further no reason for Kontrollbank to be concerned since the Austrian projects are continuously monitored and Kontrollbank has affirmed that everything is OK.

The unofficial line of reasoning given to the press was as follows: Sweden and Finland might have reasons for joint evaluation since they cooperate in many large-scale projects, but there are no joint projects with Austria. Therefore, there is no reason for joint evaluations.

Contradicting this argumentation is of course the fact that Austria participated in the pulp factory "Indah Kiat" project, which also the Swedish and the Finnish ECAs participated in by supplying far-reaching public guarantees.

The public pressure in Sweden and Finland leading to the evaluation was basically caused by information describing the above-mentioned state of affairs around the factory "Indah Kiat". While the Austrian taxpayers are still kept in the dark about for which other pulp industry companies in Indonesia the Austrian Kontrollbank issued guarantees (e.g. for Inti Indorayon Utama, South Pacific Viscose and Andritz Inc.'s deliveries to Musi Pulp Factory), the social situation in Indonesia is worsening by the day.

8.6.2 Turkey: controversial power plant projects

Energy demand in Turkey is according to official numbers increasing each year by 8 per cent (3500 megawatt (MW) at an investment volume of 3-4 billion USD).⁵² This makes of course for a very interesting market for the Austrian engineering companies (e.g. VA Tech Hydro and Elin, Strabag, Verbundplan).

Turkey is not only causing wide spread concerns regarding (un)democratic practice (e.g. the treatment of the Kurdish population), but is also seen as a country with economic problems. In February 2001, e.g., the Turkish currency lost over night more than 40 per cent in value. As a consequence, Turkish imports from the EU decreased more than 33 per cent.⁵³

Thus, Austrian companies need public export guarantees if they wish to tap into the Turkish market. The Austrian Kontrollbank fulfills this wish and, consequently, 29 percent of all hydropower projects under construction in Turkey are in the hands of Austrian companies.⁵⁴ Currently, several applications of this sort are being processed at the OeKB. Recently was for example the dam project at the river Ermenek granted guarantees. The companies Alpine Bau, Elin Energieversorgung Ltd, Voest Alpine MCE and Verbundplan participate in this project.⁵⁵ The Austrian companies VA Tech Elin, VA Tech Voest MCE, Verbundplan und Strabag participate in the dam projects Borcka and Muratli at the river Coruh (on the border to Georgia) with 291 million euro.⁵⁶

While the above-mentioned dam projects hardly have been discussed in the public due to lack of transparency – no information regarding their ecological and social impacts is available – the following two projects with Austrian participation has caused enormous international protests.

8.6.2.1 Dersim⁵⁷

The province of Dersim, officially called Tunceli, is one of the best-wooded regions in Kurdistan. Here one of the highest concentration of rare animal and plant species in the Near East can be found (bears, wolves, river otters, vultures, eagles, cedar trees, Vallonea Oak among others).

In this valuable natural landscape have for years eight dams at the River Munzur been under construction. Two dams are almost complete. For the other six dams the planning phase is almost finished. In total the output of the eight power plants will only reach only 362 MW (the Austrian dam Kaprun alone generates 330 MW).

Impacts

The dams do not provide any relevant benefit neither to the region nor to the Turkish economy. The planned eight dams will cause the river Munzur to almost completely lose its natural flow. With the completion of the dams the climate will change. As with other dams, it will get warmer, which will impact precipitation, temperature and the diversity of species. The artificially created lakes will strongly reduce the self-cleaning capability of the river.

⁵² See Austrian Chamber of Economy: Country Sheet Turkey, August 2000, p.11.

⁵³ See Austrian Chamber of Economy: Economic Report on Turkey, 1st bi-annual report, 2001, p. 5.

⁵⁴ See Austrian Chamber of Economy: Economic Report on Turkey, 1st bi-annual report 2001, p. 2.

⁵⁵ See Austrian Chamber of Economy: www.bmhholding.com.tr/english/projects/undercons/ermenek.html (23 November 2001).

⁵⁶ See Austrian Chamber of Economy: Economic Report on Turkey, 1st bi-annual report 2001, p. 3; www.dsi.gov.tr/tricold/borcka.htm (23 November 2001); www.ilisu.org.uk/sulzer.html (23 November 2001); www.vatech.at/view.php3?f_id=3323&LNG=EN (23 November 2001) und www.dsi.gov.tr/tricold/muratli.htm (23 November 2001).

⁵⁷ Frimmel, M. (2001): "Endgültiger Verlust", in *Energiewende*, 2/2001, p. 12 and www.nadir.org/nadir/initiativ/kurdi-almanni-kassel/aktuell/2001/mai2001/munzur-stau.htm (31 October 2001).

Wastewater is diverted untreated in several cities because there are no sewage clarification plants. The creation of large water surfaces could moreover lead to the spreading of malaria. Furthermore, dams causes habitat fragmentation.

The dam project is a threat to the “Munzur National Park”, which with its 42 000 ha is the biggest national park in Turkey. Most of Turkey’s 1500 native plant species can be found in the Munzur valley. The dams could lead to extinction of many of these species. Several committees for saving the Munzur valley have been established in Turkey and Europe (in Austria, the Society for Threatened Peoples (GfbV).

The Austrian companies VA Tech Elin and Strabag are involved in the construction of the dams. The Austrian Kontrollbank refused to acknowledge, whether it will issue export guarantees for these companies.

8.6.2.2 GAP (Güneydogu Anadolu Projesi)

GAP is the abbreviation for the largest Turkish development project in Southeastern Anatolia. This region with its 74 000 km² is almost as big as Austria. Its nine provinces are the poorest parts of Turkey. The illiterate rate is 40 per cent and about the same proportion of people is landless.⁵⁸

GAP exists since 1977 and its official goal is to raise the standard of living in this region. A little more 60 per cent⁵⁹ of the 32 billion USD budget is used for energy supply and agriculture projects, i.e. the construction of dams along the rivers Euphrates and Tigris. To date 15 billion USD has been invested.⁶⁰ The expected completion date of the project has meanwhile been pushed back from 2010 to 2047(!) due to financial problems.⁶¹

In total, 22 dams and 19 hydropower plants are on the drawing board. These would irrigate 1,7 million hectares and generate 27 000 GWh.⁶² The six dams and three hydropower plants which have been completed to date produce 60 per cent of the planned energy generation and irrigate 7 per cent of the total land.⁶³ More than half of the output is generated by the Atatürk dam, which is in operation since 1992 and counts as the sixth largest dam worldwide with a stagnant water volume of 84,5 billion m³ (annual production 8900 GWh).⁶⁴

Impacts

These dams have caused a 45 per cent reduction of water volume in the Euphrates and a 10 per cent reduction in the Tigris. The fact that Iraq and Syria are highly dependent on these two rivers⁶⁵ makes water regulation for this large dry region stretching to the Persian Golf a strategically important factor.⁶⁶ Turkey did not try to reach any agreements with its neighbors Syria and Iraq to prevent potential future problems. This clearly violates the UN Convention on the Non-Navigational Uses of International Waterways. In addition, Israel has recently showed interest in either joining the GAP project⁶⁷ or buying water⁶⁸, which makes especially Syria suspicious.

⁵⁸ ETH (2001): Case study: Southeastern Anatolia Project in Turkey - GAP, p. 5.

⁵⁹ www.gap.gov.tr/English/finans.html (23 November 2001).

⁶⁰ *Der Standard*, 22 November 2001.

⁶¹ ETH (2001): Case study: Southeastern Anatolia Project in Turkey - GAP, p. 33.

⁶² See www.mfa.gov.tr/grupd/dc/dcd/gap.htm (15 November 2001).

⁶³ See www.dsi.gov.tr/gap.htm (23 November 2001).

⁶⁴ See www.gap.gov.tr/English/Charts/dams1.html (23 November 2001)

⁶⁵ Michel, S. (1999): “Staudammprojekte in der Türkei und Kurdistan”, unter: www.rivernet.org/turquie/reisbed.htm (31 October 2001).

⁶⁶ Frimmel, M. (1999): “Ökowaffe Wasser”, in *Energiewende*, 1/1999, p. 13.

⁶⁷ *Neue Zürcher Zeitung* (2001): “Wasser aus der Türkei für Israel”, 11 April 2001, p. 4.

⁶⁸ ETH (2001): Case study: Southeastern Anatolia Project in Turkey - GAP, p. 19.

The entire GAP project is overshadowed by a state of internal war. The area Southeastern Anatolia is in a state of emergency. There are numerous signals that the dams are also intended to serve the purpose of resettling and disbursing the Kurdish population.⁶⁹ Instead of implementing a resettlement program, people were very often simply driven out of their homes. This happened e.g. during the first large GAP project, the Ataturk Dam⁷⁰, when 65000 people were brutally expelled.⁷¹ According to information from the Turkish government have 330 000 people been resettled to date.⁷² A study on the resettled people showed that 70 per cent are unhappy about their situation.⁷³ Only land was compensated. This means that 40 per cent of the population there did not receive any compensation at all, resulting in an increase in the already substantial social gap.⁷⁴

The report “Global Trends 2015”⁷⁵ published by the CIA judges all these conflicts taken together to be a considerable security risk. The World Bank decided as early as 1984 not to take part in the GAP hydro projects⁷⁶. It based its decision on the lack of agreements – in accordance with international law – with Iraq and Syria concerning how to share the water. Thus, only the ECAs can financially secure the projects since Turkey would not be able to finance the projects alone due to its financial situation.

The environmental impacts are enormous. The World Commission on Dam’s report (2000)⁷⁷ on the impacts of large dams concluded that the primary risk of dam projects is the salination caused by irrigation projects since it very often causes permanent damage. Furthermore, flooding of an area leads to the loss of habitats and endangers animal and plant species.

The self-cleaning capacity of rivers is strongly reduced by stagnant water volumes. The large dams of the GAP project can potentially turn into sewers because of untreated sewage water from big cities like Diyarbakir. An interruption of the transport of sediments leads downriver to erosion of the riverbed. In spite of these serious ecological impacts, the Turkish government never commissioned an EIA (Environmental Impact Assessment) of the whole GAP project. Neither was any analysis conducted on potential changes to the regional climate.⁷⁸

However, a 2001 study⁷⁹ by the Swiss Federal Institute of Technology Zurich (ETH) on the GAP project confirmed these social and ecological problems and called for:

- Investments focus on the larger cities. They do not reach the poorer regions and do not contribute to closing the social gaps.
- They demand that the affected population should be more involved in the planning and monitoring of the projects and should receive more information about social and environmental impacts.
- Before the implementation of these mega-projects alternatives should be looked into. The dams secure energy supply, however, modernization of the energy supply system (better electricity grids etc.) could achieve this effect at much lower costs. Alternative energy

⁶⁹ Ibid., p. 19.

⁷⁰ The Austrian company VOEST was involved in this, see Frimmel, M. (1999): “Ökowaffe Wasser”, in *Energiewende*, 1/1999, p. 13.

⁷¹ Frimmel, M. (1999): “Ökowaffe Wasser”, in *Energiewende*, 1/1999, p. 13.

⁷² According to Yurdakul Yigitgüden, Turkish State Secretary of Energy, *Der Standard* 22 November 2001.

⁷³ ETH (2001): Case study: Southeastern Anatolia Project in Turkey - GAP, p. 10 and 33.

⁷⁴ Bosshard, P. (1998): *Das Ilisu-Projekt: Ein Testfall für die Kohärenz der schweizerischen Aussenpolitik*, unter: www.evb.ch/index.cfm?page_id=709 (26 November 2001).

⁷⁵ www.cia.gov/cia/publications/globaltrends2015/index.html#link12b (14 November 2001).

⁷⁶ Burghofer, A. (2001): “Herr der Dämme”, in *Energiewende*, 3/2001, p. 11.

⁷⁷ See www.damsreport.org (16 November 2001).

⁷⁸ Michel, S. (1999): “Staudammprojekte in der Türkei und Kurdistan”, www.rivernet.org/turquie/reisbed.htm (31 October 2001) and ETH.

⁷⁹ ETH (2001): Case study: Southeastern Anatolia Project in Turkey – GAP.

sources (e.g. photovoltaics) were never seriously taken into consideration by those responsible for the project.

- The study points out that there is a lot of international influence on the GAP project because of Turkey's financial problems. Foreign companies organize more and more the project financing themselves. Therefore, countries where the companies are seated (among them also Austria) are co-responsible for the success, failure and the impacts of the projects. Public ECAs play a very important role.

Austrian involvement

Almost one quarter of the financing of the GAP project comes from abroad. This is partly through foreign loans worth 2,1 billion USD. According to a list published by the Turkish administration⁸⁰ is the Austrian share of 200 million USD the third largest after Switzerland and Germany. After Austria comes the US, France and multilateral financial institutions.

The 200 million is mainly for financing the Karkamis dam⁸¹. However, the biggest project with Austrian participation is the Birecik dam project, a BOT scheme (Build-Operate-Transfer). It will be operated by a consortium of foreign engineering companies (among them Strabag and Verbundplan) until 2016 so they can regain the funds they invested. Only in 2016 will the dam be handed over to the Turkish state. The Austrian participation in this 1,5 billion USD project⁸² strengthens the already important role Austria has in GAP. In June 2001, Austria's Federal Chancellor Wolfgang Schüssel visited this dam and praised the project.⁸³

That the historic city of Zeugma became a victim of the dam was left unsaid. Zeugma was also known as the "second Ephesus" and was founded 2300 years ago by Alexander the Great. Worldwide protests were ignored. Furthermore, a large population of the endemic bald-ibis was reduced to only 60 individuals – extinction is looming. In addition, the resettlement of 6 500 people was accompanied by the typical Turkish "irregularities".⁸⁴

8.6.2.3 Ilisu: A test case for coordinated and jointly acting ECAs

The Ilisu dam – the biggest GAP project after the Atatürk dam – sparked national and international resistance already in the planning stages.

This dam is situated some 65 km upstream from the Syrian and Iraqi border, is 138 m high and has a 300 km² water reservoir. It has a capacity of 1200 MW that should generate a yearly output of 3800 GWh.⁸⁵

A consortium led by the Swiss Sulzer-Hydro, which meanwhile belongs to the Austrian VA Tech, took over the planning and realization of the facility. Besides OeKB are also the ECAs of Germany, UK, Italy, Japan, Portugal, Sweden and the US, under the lead of the Swiss ERG, to cover this project with public export guarantees.⁸⁶ Some ECAs have already assured their involvement (e.g. the Swiss ECA with 470 million Swiss francs, the British ECA with 200 million USD and the Italian ECA with 152 million USD).⁸⁷

⁸⁰ www.gap.gov.tr/English/finans.html, status 2000 (23 November 2001).

⁸¹ See www.dsi.gov.tr/tricol/karkamis.htm (23 November 2001) and www.vatech-hydro.com/view.php3?f_id=3652&LNG=EN (15 November 2001).

⁸² This project is not included in the above-mentioned 2,1 billion USD because of the type of business transaction.

⁸³ *Der Standard*, 27 June 2001.

⁸⁴ See www.kurdishobserver.com/2000/04/09/hab06.html (23 November 2001).

⁸⁵ See www.mfa.gov.tr/grupd/dc/dcd/gap/ilisu.htm (15 November 2001).

⁸⁶ Frimmel, M. (1999): "Ökowaffe Wasser", in *Energiewende*, 1/1999, p. 13.

⁸⁷ See www.ilisu.org.uk/compsum.html (31 October 2001).

Impacts

52 villages and 15 small cities have had to make way for the Ilisu dam. The already described serious social and ecological problems typical for the GAP projects occur also here. Especially tragic is the destruction of the city Hasankeyf. It is the only city in Anatolia completely preserved from the Middle Ages and is seen as the cradle of several cultures. In 1978, the city was classified as a Turkish historical monument. The foreign companies proposed to move the most important architectural monument, but the director of the excavations in Hasankeyf estimates that only 15 per cent of the cultural assets can be saved.⁸⁸

The chief criticism of the Ilisu project in the 2001 study by ETH is that the electricity production at 1300 USD/kW is very expensive. Other alternatives (e.g. modernization of the energy supply) would be more cost efficient.⁸⁹

An internal report on Ilisu ordered by the Swiss ECA shows grave deficiencies of the resettlement planning. For example, the project managers strongly underestimated the number of affected people (12 000 - 16 000). The study's estimate reaches a number of 55 000 - 78 000 affected people. The study also criticized the lack of a socio-economic inquiry regarding land rights and income structures and pointed out the serious failures of resettlement practices in Turkey.⁹⁰

This caused fierce public discussion, mainly in Germany, Switzerland and UK. In Austria, on the other hand, OeKB kept all information concerning this issue as secret as if it were a state secret (also due to the legal situation).⁹¹

An assessment done in Switzerland concluded that a public guarantee by the Swiss state would be a violation of international law. Switzerland would breach international law because Turkey can with these dams (without international agreements) strongly influence the water supply of neighboring countries.⁹²

The Committee on development policy of the British parliament⁹³ and the Committee on Human Rights of the German parliament⁹⁴ spoke out clearly against the support of the Ilisu dam.

Under this international pressure, the involved ECAs brought themselves – for the first time in history – to a common examination procedure.

Based on the initiative of the British EGCD, they formulated the following four basic conditions:⁹⁵

- Resettlement program according to international standards
- Guarantees for a steady water flow downstream
- Rescue plans for the historic city of Hasankeyf
- Preservation of the water quality (construction of water treatment facility)

⁸⁸ Bosshard, P. (1998): Das Ilisu-Projekt: Ein Testfall für die Kohärenz der schweizerischen Aussenpolitik, unter: www.evb.ch/index.cfm?page_id=709 (26 November 2001).

⁸⁹ ETH (2001): Case study: Southeastern Anatolia Project in Turkey – GAP, p. 17.

⁹⁰ See www.weedbonn.org/presse/pm001026.htm (31 October 2001).

⁹¹ Burghofer, A. (2001): "Herr der Dämme", in *Energiewende*, 3/2001, p. 11.

⁹² Frimmel, M. (2000): "Aggressive Wasserpolitik", in *Energiewende*, 4/2000.

⁹³ See www.ecgd.gov.uk/graphic/pubreports/ILISU.asp (16 November 2001)

⁹⁴ *Süddeutsche Zeitung*, 28 November 2000, p. 5.

⁹⁵ See www.ecgd.gov.uk/graphic/pubreports/ILISU.asp#background (16 November 2001).

A NGO delegation concluded in 2000 that none of these points are being fulfilled.⁹⁶ The involved ECAs ordered an Environmental Impact Assessment (EIA)⁹⁷, which also mentions individual problems (e.g. not sufficient sewage treatment to guarantee water quality). In an official statement, several NGOs criticized the EIA for being incomplete and ignoring important aspects. Moreover, there are no concrete plans either for the rescue of Hasankeyf, or for the resettlement. For an organized resettlement it is also necessary to first recognize the rights of the Kurdish population. The project is violating eight World Bank guidelines (among others rules on the release of information, resettlement, indigenous population and the treatment of cultural goods), two OECD guidelines and all the recommendations made by the World Commission on Dams (WCD).⁹⁸

Because of these uncovered scandals and the feared image damage, more and more companies dropped out of the project. In March 2000, the Swiss ABB gave its share to the French Alstom⁹⁹ and in September 2000 the Swedish company Skanska¹⁰⁰ followed suit. By mid-November 2001, the companies Balfour Beatty (UK) and Impregilo (Italy) also took the consequences and announced their withdrawal from the consortium. Apart from the economic risks, these companies also pointed to the projects' ecological and social impacts, which seem unsolvable at the moment.¹⁰¹ Obviously, the companies understood in time that these projects are leading all involved parties to disaster.

According to the *Financial Times* (14 November 2001), Austrian VA Tech and the French Alstom are the only remaining foreign companies in the consortium. According to VA Tech director Georg Antesberger, the whole project is currently frozen and it is now up to the Turkish government to move forward on the project.¹⁰² According to the Swiss NGO "Berne declaration"¹⁰³ is the company Alstom not willing to step down and is looking for new partners, possibly Chinese.

If it was pressure from individual ECAs and governments in UK, Italy and Sweden that made "their" companies drop the projects on their own initiative can unfortunately not be proven. However, they would definitely have had the power to do so. The Swiss and the German ECAs halted all their activities in connection with Ilisu. OeKB is not releasing any information. While public discussion on this issue has been possible in the UK, Switzerland and Germany for quite some time, OeKB prevents this in Austria. It was public participation of this sort that drove several ECAs to conduct the first joint examinations of social and ecological impacts. This in turn led to the change of opinion of several companies.

OeKB's way of acting – as a quasi public institution mandated by the ministry of Finance – is in its support of the Dersim and the GAP dams in many aspects violating the government's environmental and foreign policies. Particularly the GAP projects violate many international regulations that Austria has signed up to (e.g. within the framework of the UN). Austrian engineering companies are very well established worldwide, mainly as dam constructors. Because the market for dams seems fairly saturated in the industrialized countries, they jump even on controversial projects such as the GAP. It has been feared that OeKB and the ministry of Finance will be give in and be use as instruments for this. As the already several times quoted Swiss study¹⁰⁴ confirms, foreign financiers have a very strong influence on such projects. This can be used by OeKB in cooperation with other ECAs to demand an examination of alternative solutions to these large dams.

⁹⁶ See www.weedbonn.org/presse/pm001023.htm (31 October 2001).

⁹⁷ See www.ecgd.gov.uk/downloads/IlisuExecSummary.pdf (20 November 2001).

⁹⁸ See www.weedbonn.org/hermes/il_uvp_hintergrund.htm (31 October 2001).

⁹⁹ See www.ilisu.org.uk/compsum.html (31 October 2001).

¹⁰⁰ See www.ilisu.org.uk/news2.html (31 October 2001).

¹⁰¹ *The Guardian*, 14 November 2001.

¹⁰² *Der Standard*, 20 November 2001.

¹⁰³ See www.evb.ch.

¹⁰⁴ ETH (2001): Case-Study: Southeastern Anatolia Project in Turkey – GAP.

8.6.3 Philippines – The San Roque Dam

In 2000, VA TECH Hydro – part of VA TECH AG – was commissioned to plan, construct, deliver and install 3 200 tons of pressure pipes for one of the biggest power plants in the world, the San Roque dam. The order was worth 6.54 million Euro.¹⁰⁵

The 345 MW hydro power plant is being constructed at the Agno River in the Cordillera region in the Philippines. The 200 m high and 1 km long dam, twelfth highest in the world, is not only to be used for electricity generation, but also for irrigation, improvement of water quality and protection against floods. The US company Raytheon started the construction in 1998 and completion is planned for 2004.¹⁰⁶

San Roque is the last and biggest project in a series of dams at the Agno River. The others were built mainly in the 50s and 60s and contrary to what was promised, they have meant only a burden for the local populations and not an improvement of their living situation. For example, until 1990 only around half of the bordering communities were connected to the electricity supply.¹⁰⁷

The resettlement of 61 700 people is planned but there are as of yet no replacement apartments, agricultural land or social services prepared.

The situation is now getting even more difficult for the local Ibaloi people. The Ibaloi have already been expelled several times because of the first dam constructions and now their last place of cultural interest, their holy place, is threatened by the San Roque dam construction. “We are determined to fight against the project to the limits of our own capacity. We will not be a party to our own death”, declared the Ibaloi, who live mainly on agriculture and fishing.¹⁰⁸

Because there are also important mining projects in the region – the energy demand of these projects is the real reason for the construction of the hydro power plant – there is a fear that the water quality in the whole Agno River Basin is threatened in the long run. An independent Environmental Impact Assessment, which was ordered by the US NGO “International Rivers Network”, concluded that sedimentation will take place in the artificial water basin much faster than assumed by the constructors. Due to silt buildup, the lifetime of the dam might be drastically reduced. Moreover, the region is very earthquake prone. The dam is situated only 26 km west of the Digdig fault and a massive earthquake was registered here as late as 1990. There are also other fault lines that run close to the dam project.

However, a law in the Philippines grants indigenous people and local communities a right to veto destructive projects in their region but this has not stopped these plans yet. The community Itogon, for example, has again retracted its consent despite a government promise to give substantial financial support for the consent to the project.

Resettlement programs were carried through insufficiently at best. The promised compensation payments were not given in the amount promised and in most cases not at all. The resettled families still do not own the land they were assigned or their houses officially.

¹⁰⁵ VA TECH HYDRO: “VA TECH HYDRO receives major order for San Roque dam project / Philippines”, July 2000, <http://www.vatech-hydro.com/html/news/>, *Wallstreet Online*: “VA Tech: Weiterer millionenschwerer Großauftrag für Staudammprojekt San Roque”, 24 July 2000, <http://www.union-invest.de/news/wallstreet/>.

¹⁰⁶ IBON: “San Roque Multi-Purpose Dam Project (SRMDP)”, Manila, December 2000.

¹⁰⁷ Jill K. Carino: “A Case Study on the Ibaloy People and the Agno River Basin, Province of Benguet, Philippines”, in: Cordillera Women’s Education and Resource Center: “Saving the Agno River”, Kali, Vol. I, No. 1, Baguio City.

¹⁰⁸ Cordillera People’s Alliance, Philippines: “Stop the San Roque Dam! Let the Agno River Flow – A social and economic crisis is brewing in the Philippines”, Press information, September 2000.

Job opportunities – so people could make a living – were not created: 85 per cent of the people are jobless.¹⁰⁹

The affected population has formed a broad movement. The Movement against San Roque Dam and other Mega-dams (MASRDAM) was founded at the beginning of 1999. MASRDAM hopes to stop the project with mass actions, press conferences, commissioned studies and other measures of well-founded critique and massive public protest.

The project does not only bring about social costs, but also a considerable risk for the Philippine taxpayer. In 1997, the Philippine government signed a contract with the San Roque Power Corporation, who is building the dam, concerning operation and maintenance (BOT scheme – Build, Operate and Transfer). This corporation is a Philippine-Japanese consortium and with this contract the government committed itself to pay back debts that could arise if the consortium cannot fulfill its payment obligations. This is a considerable risk for a country that is already highly indebted.

Furthermore, the government committed itself to purchasing all the electricity generated (for a comparably high price, as a study by the International Rivers Networks found out) and to granting the consortium a subsidy of 400 million USD. Even if no electricity should ever be delivered, the government would have to pay fees of 10 million USD a month for the operation of the installation.¹¹⁰ In this fashion are all risks of the project passed on the Philippine state.

The Japanese Export Credit Agency JEXIM is the biggest financier of this project. However, JEXIM hardly granted guarantees for Austrian deliveries. Did VA TECH insure its deliveries against political risk in Austria?

8.6.4 Export Credit promotion of nuclear power plants at Austria's borders¹¹¹

When energy planning thinking switched gears in the beginning of the 90s, focusing more on efficiency improvement of existing coal and gas power plants, it seemed clear that the nuclear power plant Mochovce in central Slovakia was about to become a relic of Soviet nuclear technology. To not complete the two units at Mochovce would have been the better decision from an energy policy and economic point of view.

Construction of the four units of the VVER 440-213 stopped in 1991 because they ran out of money. Subsequently were two options discussed: completion or permanent construction stop and construction of a gas plant.

The European Bank for Reconstruction and Development (EBRD) clearly favored completing the nuclear power plant. The French energy utility Electricité de France (EdF) formed a consortium with several German companies, among them Preussen Elektra and Bayernwerke, and competed in the tender. One company after the other left the consortium during 1995 and subsequently Slovakia retracted the financing application.

The director of the Project Unit at the EBRD, responsible for the project, later admitted that the least-cost-study for this project was manipulated so that the option to complete the nuclear power plant received a small advantage over the other option.

In 1996 it was the German company Siemens' turn to have a stab at Mochovce. Thanks to financing from Kreditanstalt für Wiederaufbau and a guarantee by the German ECA (Hermes Kreditversicherungs AG), Siemens was commissioned to complete Mochovce.

¹⁰⁹ HAPIT – official publication of the Cordillera People's Alliance, Vol. III, No. 2, July-December 2000.

¹¹⁰ IBON: "San Roque Multi-Purpose Dam Project (SRMDP)", Manila, December 2000.

¹¹¹ For this section was used several press releases by Patricia Lorenz, Austrian NGO Global 2000.

The public loan guarantee by Hermes had a crucial role. It was also a question of securing the very existence of the German nuclear industry, which had not received a single construction order in Germany (Western Germany) since 1982.

The EBRD conditioned its loan to Slovakia for the two new blocks of the Mochovce plant on the closure of the two oldest units of Slovakia's other nuclear power plant, Bohunice. However, this condition was ignored when it came to granting a guarantee to Siemens. On the contrary, Siemens was also commissioned for a technical update of Bohunice.

This "downward spiral" effect is possible because of the lack of binding environmental guidelines for public Export Credit Agencies. The lack of responsibility towards the environment and society can also be seen in the case of the Czech nuclear power plant Temelin, a very big worry for the Austrian people. Here, the US company Westinghouse offered to add some western safety systems on a foreign (Soviet) reactor. The US Export Credit Agency Export-Import-Bank (Exim) granted the public guarantees. However, these guarantees – granted in 1994¹¹² against economic and political risk – do not cover damage caused by reactor accidents.

Despite protests and doubts concerning safety standards (the installation shows serious technical problems), the Czech Republic is determined to put Temelin into full operation.

Austrian companies also participated in the construction of Temelin. They have not supplied any reactor parts, but the security system of the plant site comes from Austria. Because of the confidentiality applied it is not known whether a public guarantee was granted.

The OeKB business conditions define that the Austrian export guarantees do not cover goods to which the Federal Law establishing a Security Control in the Field of Nuclear Energy¹¹³ applies. This Law includes a list of nuclear power plant related products. A security system for a nuclear power plant site is not included in this list.

¹¹² Before EXIM bank introduced its relatively strong environmental standards.

¹¹³ Sicherheitskontrollgesetz, BGBl 1992/415.

9 Ten arguments for an ECA reform

ECA counterargument: **Sure we see the problem with this project – but if we do not support it, someone else will.**

Argument: Here, the assumption is that any socially or environmentally damaging action is acceptable if someone else also considers doing it. With this argument the ECAs free themselves from any responsibility and cause a steady worsening of the standards. It is interesting to note that the World Bank uses a similar line of argumentation when it has to accept that criticism of a project is appropriate: If we would not support it, the project would fall into the hands of an ECA, which is even less scrupulous.

Counterargument: **We cannot be blamed for negative impact on development since we are not a development aid agency, but an export promotion agency.**

Argument: It is a fact that ECA-supported projects in developing countries inevitably also have impacts on the development, whether these are positive or negative. The impacts of projects supported with public funds – and therefore implemented with government support – are also of public interest and should be discussed in the exporting country, and even more so in the receiving country in public. Furthermore, there are meanwhile international conventions, and also EU directives, which oblige to create a coherence of different policy fields. Development aid initiatives, for example, should not to be wrecked by export promotion.

Counterargument: **We are no project managers and therefore we cannot influence the result of the project.**

Argument: Through the contracts they have negotiated, and the business conditions towards the companies implementing the projects, ECAs influence in a very decisive way the financial outcome of the projects. They also have the power to monitor and evaluate the financial development of projects during the implementation. In the same manner, the ECAs could demand social and environmental practices for projects.

Counterargument: **We cannot apply World Bank standards because the standards of the receiving countries are sometimes higher.**

Argument: The application of World Bank standards as a minimum would never exclude the validity of higher standards in any given receiving country. It is also a fact that World Bank standards cannot be recommended for all fields, and that very often it would be better to apply the national standards of OECD countries. The rule should be to always apply the highest standards.

Counterargument: **We cannot meddle with the sovereignty of the receiving country.**

Argument: ECAs demand a whole range of conditions concerning financing and contracts for project financing. Are not putting financing conditions a sort of meddling with the sovereignty? Or is it only when talking about environmental and social standards?

Counterargument: **Always this extreme black and white argumentation: “alternative energy sources are good – fossil fuels and large dams are bad”. We can promote both!**

Argument: ECAs work with public funds and should therefore support public interests. ECAs should not support projects with negative impacts on the environment and population, but should rather direct funds into such plans that promote sustainable industries, e.g. renewable energies.

Counterargument: **We cannot inform the public about our projects because this is proprietary information about private business transactions.**

Argument: That would mean that ECAs put private profit interests above public interest, which they supposedly serve.

Counterargument: **These transactions happen so quickly so there is no time to look very much into environmental questions.**

Argument: Most large-scale projects (and these are the most sensitive ones) need years until they are prepared and negotiated.

Counterargument: **Developing countries can benefit from competition among the ECAs.**

Argument: On the contrary, competition among ECAs rather promotes the lowering of standards for social and environmental compatibility.

Counterargument: **Because we make profits it cannot be argued that we are supporting damaging projects with public funds.**

Argument: ECAs do not make profits everywhere. They constantly produce public debts with the projects they promote. Independently of whether the ECAs operate with profit or loss, it is a fact that they do it on behalf, and under the supervision of, state institutions. This automatically makes them responsible to public interest.

ANNEX

THE JAKARTA DECLARATION¹¹⁴

For Reform of Official Export Credit and Investment Insurance Agencies (ECA);
Jakarta/Indonesia, May 2000

(This package of demands is being supported by more than 300 NGOs from 44 countries.)

The NGOs call upon OECD governments, ministers and national legislatures to undertake with due dispatch the following reform measures for their ECAs:

1. Transparency, public access to information and consultation with civil society and affected people in both OECD and recipient countries at three levels: in the assessment of ongoing and future investments and projects supported by individual ECAs; in the preparation within national ECAs of new procedures and standards; and in the negotiation within the OECD and other fora of common approaches and guidelines.
2. Binding common environmental and social guidelines and standards no lower and less rigorous than existing international procedures and standards for public international finance such as those of the World Bank Group and OECD Development Assistance Committee. These guidelines and standards need to be coherent with other ongoing international social and environmental commitments and treaties, for example, the conventions of the International Labor Organization and the United Nations Convention on Biological Diversity. In addition ECAs must conduct full, transparent accounting for climate change impacts and move to increase investments in sustainable renewable energy. So far, some governments have established, or are establishing, environmental and social policies which substantially deviate from, and are below these internationally recognized standards and guidelines.
3. The adoption of explicit human rights criteria guiding the operations of ECAs. This should be done in consultation with affected people and civil society, and based on existing regional and international human rights conventions. In Indonesia and elsewhere ECAs have not only supported arms exports directly linked to egregious human rights abuses, their support for mining, paper and pulp mills and other major infrastructure investments often has been accompanied by destruction of indigenous and local peoples' rights to land and livelihood resources, armed suppression of dissent, and suppression of press freedom to criticize such abuses.
4. The adoption of binding criteria and guidelines to end ECAs' abetting of corruption. According to Transparency International, the continued lack of action by ECAs to address this issue is bringing some ECA practices "close to complicity with a criminal offense." We endorse the recommendations of Transparency International submitted to the OECD and European Union in September, 1999, on how ECAs should avoid continued complicity in corruption. These include, inter alia, recommendations that export credit applicants must state in writing that no illegal payments related to a contract were made, and that any contravention of the ban on illegal payment should entail cancellation of the state's obligation to pay. Companies found guilty of corruption should be banned from further support for five years, and export credit

¹¹⁴ Shortened version.

agencies should not underwrite commissions as part of the contracts they support.

5. ECAs must cease financing non-productive investments. The massive ECA support for military purchases and white elephant projects, such as nuclear power plants, that would be rejected by OECD bilateral aid agencies and multilateral development agencies such as the World Bank must end.
6. The cancellation of ECA debt for the poorest countries, much of which has been incurred for economically unproductive purposes. We support the call of the Indonesian anti-debt coalition for the cancellation of Indonesian ECA obligations, now placing an insupportable burden on the Indonesian people.

Conclusion:

The OECD Development Assistance Committee declared in 1996 that " we should aim for nothing less than to assure that the entire range of relevant industrialized country policies are consistent with and do not undermine development objectives." The OECD ECAs, and the OECD Export Credit Working Party, completely disrespect this call. These ECAs have so far refused to accept any responsibility for their past mistakes, and to draw any meaningful lessons from them. The current practices of the ECAs embody a form of corrupt, untransparent, environmentally and socially destructive globalization as serious and reprehensible as the concerns raised by civil society and activists around the world about the World Trade Organization, the proposed Multilateral Agreement on Investment, and the International Monetary Fund and World Bank.

We call upon concerned citizens and organizations around the world to turn their attention to ECAs and their negotiating forum, the OECD, and to press their governments to undertake reform without further delay.

(The Jakarta Declaration was adopted at a strategy meeting of the international NGO movement for the reform of public Export financing agencies, which took place May 1 – 7 2000 in Jakarta and South Sumatra. <http://www.eca-watch.org>).

GLOSSARY

Agenda 21

The plan adopted by the UN conference on Environment and Development (also known as the Rio Earth Summit) describing 115 programs to solve the environmental problems discussed at Rio.

Balance of Payments

Value based comparison of all foreign trade transactions during a defined period of time.

Berne Union

The Berne Union is the international coordination forum of public Export Credit Agencies. The International Union of Credit and Investment Insurers was founded in 1934 according to Swiss private law. The secretariat is seated in London. In 1999, the Berne Union was comprised of 48 members in 40 countries.

The Berne Union supports the international acceptance of “sound principles of export credit insurance and the establishment and maintenance of discipline in terms of credit for international trade”. Furthermore, it promotes international cooperation for the “establishment of a favourable investment climate and sound insurance conditions for foreign investments” and provides for exchange of information on commercial and political risks involved in export credit insurance.

E-mail: bu-sec@berneunion.org.uk
<http://www.berneunion.org.uk>

DAC (Development Assistance Committee)

The Development Assistance Committee of the OECD discusses questions of cooperation with the so-called developing countries. DAC has 33 members (22 donor countries and the EU Commission).

Debt service

Amount of interest rate and repayment service an indebted country has to pay back yearly to private and public creditors abroad.

Debt service ratio

The ratio of interest and principle payments as a proportion of export profits for a given year for an indebted country.

Direct investments

Capital investment abroad through the acquisition of direct ownership rights of real estate, business shares, companies and daughter companies as well as reinvestments of direct investments.

EEA (European Economic Area)

The EEA entered into force in 1994. All EU and EFTA states with the exception of Switzerland are members. Within the framework of EEA the EFTA states adopted EU rules on the free movement of goods, people, services and capital, but e.g. the EU agricultural policy does not include the EFTA countries. In return, the EFTA countries have a say and certain rights of being heard, but they do not, however, have decision taking powers in EU affairs. Apart from consumer protection, environmental and social policies, also monetary and financial fields should be harmonization.

EFTA – (European Free Trade Association)

Founded 1960. EFTA wants to achieve economic growth, full employment and an increase in living standard by abolishing trade barriers between member states for non-agricultural products. Iceland, Liechtenstein, Norway and Switzerland are EFTA member-states. Austria was a member between 1960 and 1994.

EIB - European Investment Bank

EU institution, founded in 1958 for the promotion of a balanced development of European integration through the financing of investments, especially for the development of economically weaker areas, the development of transport and telecommunications infrastructure of European interest, environmental protection, improvement of structures in urban areas, implementation of EU energy policy, improvement of competitiveness of industry. Since 1993 EIB also grants loans within the framework of EU cooperation and development policy: currently to over 120 third states.

EIF - European Investment Fund

Founded 1994. Autonomous EU institution for strengthening the internal market through the issuing of guarantees for the financing of large infrastructure projects within the framework of Transeuropean Networks (TEN) and for investments of small and medium-sized enterprises (SMEs). Minimum 70 per cent of guarantees go to investments financed by EIF members.

EU – ACP Agreement

Trade and cooperation agreement among the ACP states (African, Caribbean and Pacific).

EU Structural Funds

One of the four EU Structural Funds is the EFRD (European Fund for Regional Development) for the reduction of economic, social and regional differences.

Foreign debt

All short, medium and long-term obligations arising from trade and capital transactions towards abroad.

Foreign debt, total

The debt reporting system of the World Bank uses this term for the sum of all public, publicly insured, private, non guaranteed long term foreign debts, the short term debts and the outstanding IMF loans.

Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is a measure of National Income. It is the total value of all goods and services produced over a given time period (usually a year) excluding net property income from abroad. It can be measured either as the total of income, expenditure or output.

Gross National Product (GNP)

GNP is the GDP plus the income accruing to domestic residents as a result of investments abroad, minus the income earned in domestic markets accruing to foreigners abroad. Incomes from the black economy (illicit work) or the subsistence economy (not based on cash, e.g. barter or household work) are not included.

HIPC

Heavily Indebted Poor Country - (defined according to World Bank criteria)

HIPC Initiative

International debt relief initiative for HIPC countries under the leadership of the International Monetary Fund and the World Bank.

IMF- International Monetary Fund

The IMF is an international organization with 183 member states, responsible for international financial cooperation and monetary stability; promotion of economic growth and low unemployment rates are also its tasks. The IMF helps member states with special loans for bridging balance of payment difficulties.

Infrastructure

Infrastructure refers to long-lived basic installations – personnel, material or institutions – guaranteeing the functioning of a national economy. Included could be installations of administration, defense, supply, transport, telecommunications, health and education.

Joint – Venture

A form of cooperation where foreign companies found or acquire and operate a company with partners from the host country. Main motivation is the risk sharing when entering a new market.

Nominal value

The nominal value of a loan is the value of the loan when it was granted (as opposed to e.g. market value, the value resulting from trading bonds).

OECD

Organization for Economic Cooperation and Development
Seated in Paris

OECD was founded in 1961 and has 30 member states. It is acting as an international think tank and a forum for opinion exchange among its member states.

Its predecessor was the Organization for European Economic Cooperation (OEEC), which coordinated the US Marshall Plan (ERP) and was also responsible for the political stabilization of Europe.

The main goal of the OECD is the promotion of policies to maximize sustainable development, employment and a high standard of living for the own population. OECD defends values such the free market, democratic pluralism and respect of human dignity.

The OECD became known for its "Peer reviews". (Country reports written by experts from other member states).

The current members joined OECD in three waves: 20 founding members (Belgium, Denmark, Germany, France, Greece, UK, Ireland, Iceland, Italy, Canada, Luxemburg, Netherlands, Norway, Austria, Portugal, Sweden, Switzerland, Spain, Turkey, USA). In the following years Australia, Finland, Japan and New Zealand joined. Mexico, Poland, Slovakia, South Korea, Czech Republic and Hungary became OECD members in the 1990s.

OECD Consensus

Intergovernmental agreement to prevent competition distortions as a consequence of public export credits. The Consensus regulates public insurances, guarantees, direct export credits or refinancing with maturities of at least two years as well official development aid loans.

Official development aid

Loans financed through the development aid budget of the donor country on favorable terms.

Official indication of cover for export financing

Declaration of intent to provide the financing for a business transaction still being negotiated.

Official indication of cover for export guarantees

Declaration of intent to provide a guarantee for a business transaction still being negotiated. This indication includes the principal conditions for a future guarantee. The ECA is obliged to provide the guarantee after the contract was signed, unless the conditions worsen in comparison to when the indication was issued.

Paris Club

Informal cartel of public creditors consisting mainly of the OECD countries and since 1997 also Russia. The Paris Club agrees unequivocally on rescheduling and debt cancellation for individual indebted countries. The decisions are not legally binding, therefore these agreements have to be laid down in bilateral contracts.

Project financing

Financing of a project where future profits will be used for paying back the granted loans (used when the usual bank securities are not sufficient).

SDR (Special Drawing Rights)

The in 1969 introduced finance tool (artificial "basket" currency) of the International Monetary Fund (IMF), which is being calculated anew every year on the basis of the most important currencies (Euro, Japanese Yen, Pounds Sterling, U.S. Dollars).

Soft loans

A loan made to a country on a concessionary basis (longer credit period, lower interest rate).

Subsidies

Direct (financial) or indirect (tax relief) support given by the state for a special purpose (e.g. price support) or behavior of companies.

Uninsured percentage/portion

The part of a guarantee not covered by the issued guarantee, but remains a risk for the company receiving the guarantee.

Unsecured bank loans

Loans granted by banks without state guarantees for the financing of export transactions.

World Bank

The World Bank Group consists of four sister agencies, which are independent, but strongly connected to each other (common president, etc.): IBRD- the International Bank for Reconstruction and Development, IDA- the International Development Agency, IFC - the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency MIGA.

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[TS1] Red highlighting means TL could not make sense of the sentence.