

A CAMPAIGNER'S GUIDE

# DROP *iT!*

Autumn 2010

**Time to  
drop the  
Dodgy Deals**



  
**JUBILEE DEBT  
CAMPAIGN**

# THE DEPARTMENT FOR DODGY DEALS

There is a government department that operates ‘beneath the radar’ – with little public awareness, accountability or openness. It is called the Export Credits Guarantee Department (ECGD).

The ECGD supports the arms trade, coal power stations and oil pipelines. It has supported projects linked to corruption, human rights abuses and environmental destruction.

The ECGD bails out some of the world’s wealthiest companies when projects go wrong and creates mountains of debt for developing nations.

**That’s why we call it the Department for Dodgy Deals.**

## WHAT IS EXPORT CREDIT?

Many countries have an Export Credit Agency (ECA) which helps their exporters invest in ‘high risk’ projects, by providing insurance against non-payment.

ECAs represent the largest public source of funding in the world – far greater than aid budgets. The top 12 ECAs alone backed more than \$260 billion of business in 2008, and they are estimated to have backed at least 10% of world trade in 2007. As such, their impact is huge.

In particular, ECAs make possible large infrastructure projects. Pressure group ECA-Watch has found that half of all new greenhouse gas-emitting industrial projects in developing countries have some ECA support.

## THE UK’S ROLE

Britain’s ECA, the Export Credits Guarantee Department, is a government department reporting to the Secretary of State for Business, Innovation and Skills. It has supported some of the most controversial British exports of recent years, from the Al Yamamah arms deal to Saudi Arabia, to BP’s Baku-Tbilisi-Ceyhan oil pipeline in the Caucasus. Between 2005 and 2010, defence and aerospace made up 79% of ECGD’s portfolio.

Most recently, a newspaper report detailed ECGD support for the “largest and riskiest” oil drilling project in the Atlantic Ocean. The project, off Brazil, is deeper than the BP deepwater rig that exploded in April, with no apparent mitigation measures taken to prevent a BP-style disaster.

## HOW TRADE CREATES DEBT

Developing countries – like Kenya, Indonesia, Ecuador and Vietnam – currently owe a total of £2 billion to the ECGD, more than any other public institution in the UK.

Here's how: in the event of a company which has received ECGD insurance not being paid for an export, it can recover its costs from the ECGD (i.e. the British taxpayer). The ECGD then often recovers this money from the government of the recipient country. In effect, a failed trade deal has become a debt.

Very little is known about the deals behind these 'export credit' debts, as the ECGD refuses to make the information public – or claims not to hold it – despite Freedom of Information requests. But those we do know about are often extremely 'dodgy deals' (see case studies, right).

### Debts owed to the ECGD, March 2010, (selection)

Cote d'Ivoire	£24.3m
Ecuador	£35.5m
Indonesia	£513.5m
Iraq	£288.2m
Kenya	£7.8m
All developing countries	£2,098.4m

### Recoveries received by ECGD 2000-2010, (selection)

Ghana	£21.3m
Indonesia	£402.8m
Kenya	£19.2m
Nigeria	£625.2m
Peru	£85.1m
All developing countries	£2,276.7m

## TOXIC DEBT

Over the last 30 years, huge debts, often run-up in unjust ways, have prevented scores of developing countries from fighting poverty. Countries have been forced to spend more money repaying rich countries and banks than they have spent on health and education.

Much of this debt is not merely unjust because it is unpayable. It is unjust because it is based on loans which harmed the people or the environment of the country in which the projects took place. The projects may have been responsible for human rights abuses, for ecological destruction, for violations of international agreements or labour rights, or they might have fuelled corruption.

We believe that debts created in this way are illegitimate – the original 'toxic debts'. In these circumstances creditor governments must accept their share of responsibility and cancel what is owed.

It is unacceptable that profits be made from the abuse of human rights, the destruction of the environment or the impoverishment of local communities.

### TOXIC DEBT

'Toxic' or 'illegitimate' debt could include loans incurred:

- ✘ by undemocratic means or by undemocratic regimes;
- ✘ for morally reprehensible purposes, such as repression;
- ✘ in secret, without the participation of legitimate representatives;
- ✘ for useless projects that failed to benefit the country concerned.



LEFT: INDONESIA IS STILL REPAYING THE UK FOR HAWK JETS AND OTHER WEAPONS SOLD TO GENERAL SUHARTO.

## 1. SUPPORTING OPPRESSION IN INDONESIA

'Toxic debts' can arise when loans have been used to help a dictatorial regime cling onto power. Indonesia 'owes' the ECGD over £500 million – most run-up selling weapons to General Suharto.

Suharto was an avowed 'anti-communist' who, amongst other crimes, killed between 500,000 and 1 million activists during his first year in office and conducted a 24-year occupation of East Timor.

From 1994 until the end of that decade, Indonesia bought half of its military equipment from the UK. Weapons supplied by the UK, including Hawk aircraft, Scorpion tanks and water cannons, were sighted in use against civilians, including during the attack on Aceh.

Indonesia pays \$2.5 million in debt repayments every hour – more than it spends on education or healthcare. The Indonesian people, 61% of whom live in poverty, should not be repaying the British government for their own subjugation.

**“Imagine you went to your bank manager and said, can you lend me a few hundred million for a project that is environmentally unsound, highly corrupt, and unlikely to even materialise ... or how about a few hundred mil so I can blow somebody’s brains out?”**

*Professor Noreena Hertz, economist and author, Cambridge University*

## 2. HELPING TO RIP OFF KENYANS

Finance can also be 'toxic' when it locks countries into ever-increasing debt while failing to provide the benefits promised by Western companies. The Turkwel Gorge Hydro-Electric Power Station was built to provide energy to Kenya, though concerns were raised that the flow of the Turkwel river was unreliable.

In 1986 the Kenyan government awarded a construction contract to a French company for \$250 million – more than double what the government should have paid according to a European Commission representative, hinting that corruption was involved. The ECGD issued a £17.5 million guarantee to a British company to assist.

The eventual cost ran to \$450 million, while it reportedly produced half of the energy expected because of low water. The Kenyan press called it "the whitest of white elephants" and a "stinking scandal".

Kenya is a low income country with \$7.5 billion foreign debts. The British government recognises that Kenya should receive debt relief, but claims it cannot currently give that relief because of the unstable political situation. The Kenyan people should not have their development further jeopardised by an overpriced project.

RIGHT: PROTESTERS OUTSIDE THE OFFICE OF VINCE CABLE, THE NEW MINISTER RESPONSIBLE FOR THE DEPARTMENT FOR DODGY DEALS.

### 3. UNDERWRITING A FAILED PROJECT IN INDIA

The Dabhol Power Plant is one of the largest foreign investment projects in India. Its construction was estimated at \$2.9 billion, 50% greater than equivalent power projects in India. In February 2000, ECGD provided investment to three UK banks, despite concerns by the World Bank about the project's economic viability.

Unable to deal with protest, the management company paid local police to provide security. Human Rights Watch noted: "police forces arrested, harassed, and intimidated critics of the DPC power plant. The company's critics... were subjected to beatings and detentions."

In June 2001 the power plant was closed after the State Electricity Board decided not to buy any more power from the plant because it cost four times more than other domestic power producers.

In November 2003 the three UK banks filed claims for political risk insurance with the ECGD for about \$60 million. India, which still has 450 million people living in extreme poverty, faces a huge compensation bill for a project that has not served its needs.

The ECGD should not help mega-corporations evade their responsibilities for responsible overseas investment.

### WHAT'S THE ALTERNATIVE?

The ECGD could support new businesses and green industries. But this would require honesty about the past, and major changes in the future, including opening the ECGD to public scrutiny and evaluating its projects to see if they were beneficial to people and the environment.

At the moment, the ECGD is moving in the wrong direction, recently lowering its standards to the minimum prescribed by industrialised countries. This means smaller projects will not be screened, in effect making the current ban on harmful child and forced labour meaningless.

Before coming to power, new Business Secretary Vince Cable called for ECGD support for arms exports to be cut, and new International Development Secretary Andrew Mitchell called for ECGD support for fossil fuel exports to be cut. These are promising statements – but it remains to be seen what they will do now they are in Government. Public pressure for change will be critical.



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Dear \_\_\_\_\_ MP

It's time to End Britain's Dodgy Deals. Please sign Early Day Motion 622 on the 'Export Credits Guarantee Department' and ensure that we:

- ↘ Publicly audit all outstanding ECGD debts and cancel those found to be unjust.
- ↘ Adopt and enforce much stronger standards to promote a green economy, human rights and the end of poverty, not dodgy projects and arms sales.
- ↘ Stop the conversion of failed exports into Third World debt.

Yours sincerely,

Name \_\_\_\_\_

Address \_\_\_\_\_

Postcode \_\_\_\_\_

*If you are not sure of the name of your MP go to [www.theyworkforyou.com](http://www.theyworkforyou.com) or phone 020 7219 3000.*

Affix stamp here

\_\_\_\_\_ MP

House of Commons

Westminster

SW1A 0AA

YES, I have sent the postcard above to my MP who is:

\_\_\_\_\_

I enclose a donation of \_\_\_\_\_

(Please make cheques payable to 'Jubilee Debt Campaign', and sign the Gift Aid declaration, if applicable)

I'd like to:

- ↘ order more copies of this postcard
- ↘ order more copies of this booklet
- ↘ order more copies of the postcard to Vince Cable MP, the Minister responsible for the ECGD

QUANTITY


Name \_\_\_\_\_

Address \_\_\_\_\_

Postcode \_\_\_\_\_

Supporter Number (if known) \_\_\_\_\_

*giftaid it*

**If you're a UK taxpayer, we can reclaim an extra 25% in tax on your donations. Please tick the box, then sign and date. Declaration invalid without all three.**

I would like JDC to treat this and any future donations as Gift Aid donations. I declare that I am a UK taxpayer and will pay tax of at least the amount to be claimed on this donation in the current tax year. I will notify JDC if I stop paying enough tax.

Signature \_\_\_\_\_

Date \_\_\_\_\_

We like to acknowledge donations received. Please tick if you do **not** require this.

**Please return to: Jubilee Debt Campaign, The Grayston Centre, 28 Charles Square, London N1 6HT.**

*If you're not making a donation, you can also email this information to [info@jubileedebtcampaign.org.uk](mailto:info@jubileedebtcampaign.org.uk) or phone 020 7324 4722.*

## TAKE ACTION

Please take a minute to send the attached postcard to your MP and let them know how you feel about the ECGD.

If you can afford to donate or would like more materials, send the second postcard back to us in a stamped envelope.

**“What we are seeing is private debt turn into public debt. In effect, Northern governments and companies are effectively forcing people in the Third World to subsidise their exports, the chief beneficiaries being the shareholders of some of the richest companies in the world. In the end it is the poor who pay the price.”**

*Jubilee Australia*

## CAMPAIGNER WORKSHOP

We're holding a Dodgy Deals campaigner workshop on Saturday 13 November in London.

Get fully briefed on the issues, brush up on your media and lobbying skills, and help hatch plans for the next phase of the campaign.

For full details and to register, contact  
020 7324 4722  
or email  
[events@jubileedebtcampaign.org.uk](mailto:events@jubileedebtcampaign.org.uk)

## WHAT WE ARE CALLING FOR

The ECGD has faced numerous calls to clean up its operations.

In December 2009, the Parliamentary Joint Committee on Human Rights noted that “it is not clear whether” the ECGD’s stated principles on human rights, the environment and poverty “has had any impact on the decisions of the ECGD” and called for increased transparency. Not only was the Committee ignored, but ECGD standards have been watered down further.

If today’s ECGD projects are not to become the ‘toxic debts of tomorrow’, we need to stop the dodgy deals.

The Norwegian government has led the way. Between 1976 and 1980 Norway, through their own Export Credit Agency, financed the export of 156 ships and related equipment to 21 countries.

They did this to support their own shipping industry, which was going through a difficult time. This meant ‘persuading’ many developing country regimes to buy ships they didn’t need and their people didn’t want.

In 2006 Norway recognised that this was a development policy failure and that they had to share responsibility for the resulting debts. Norway took a unilateral decision to cancel outstanding debts to Ecuador, Egypt, Jamaica, Peru and Sierra Leone.

**We must do the same.** We are calling for radical and urgent reforms of the ECGD. We are working with human rights, environmental, anti-poverty and peace groups to achieve this.



# DEBT UPDATE

## DROP PAKISTAN'S DEBT

This summer's devastating floods in Pakistan covered one fifth of the country and affected 20 million people, leaving enormous humanitarian challenges. The international response has far from delivered what Pakistan needs to recover from the disaster, and Jubilee groups around the world have called for urgent action on Pakistan's debt. We're calling for a freeze on debt repayments (currently \$3 billion every year), and an audit of the country's enormous and unsustainable \$49 billion debt.

↘ Contact the UK Government at: [www.jubileedebtcampaign.org.uk/pakistan](http://www.jubileedebtcampaign.org.uk/pakistan)



## CLIMATE GRANTS NOT LOANS

The UK government has not yet granted a single pound to the UN Climate Adaptation Fund, which gives grants for developing countries to cope with the impacts of climate change. Instead, it is pushing climate loans through the undemocratic, unaccountable World Bank. This is not only against the wishes of developing countries, but will increase Third World Debt, and could undermine the international climate negotiations.

Since last year we have been working with the World Development Movement and others to stop global climate talks creating new unjust debts. Rich countries like the UK are offering loans not grants to developing countries to cope with the impacts of climate change, despite the enormous 'climate debt' they owe for industrialising in a way that has pushed the world to the brink of climate catastrophe.

- ▼ Send a pound to International Development Secretary Andrew Mitchell, asking him to deposit it with the UN Adaptation Fund along with the rest of the UK's climate funding: [www.wdm.org.uk](http://www.wdm.org.uk)

## LIBERIA AND CONGO

Two countries have completed the IMF and World Bank's Heavily Indebted Poor Countries initiative in recent months. Liberia reached 'Completion Point' in June, meaning 90% of its debts were finally cancelled, more than 6 years after the end of civil war.

The Democratic Republic of Congo, meanwhile, faced a last-minute delay to the announcement of its debt cancellation in July, at the request of the Canadian government. It followed a dispute with Canadian firm First Quantum over mining rights. The debt cancellation, which is expected to amount to around \$8 billion in total, comes 7 years after the country entered the scheme.

- ▼ [www.jubileedebtcampaign.org.uk/news](http://www.jubileedebtcampaign.org.uk/news)

**Jubilee Debt Campaign works to eradicate the poverty and injustice that result from global debt, and campaign for new structures to prevent the next debt crisis in poor countries.**

Jubilee Debt Campaign  
The Grayston Centre  
28 Charles Square  
London  
N1 6HT

Tel 020 7324 4722

[info@jubileedebtcampaign.org.uk](mailto:info@jubileedebtcampaign.org.uk)

[www.jubileedebtcampaign.org.uk](http://www.jubileedebtcampaign.org.uk)

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LEFT: SWAT, PAKISTAN. MANY ROADS AND PATHS WERE COMPLETELY SUBMERGED IN THIS SUMMER'S FLOODS.