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Mr. Angel Gurría,
Secretary General
Organization for Economic Co-operation and Development
2, rue André Pascal
F-75775 Paris Cedex 16

10 November 2006

Dear Mr. Gurría,

We are writing as members of ECA Watch, an international network of NGOs in OECD and Southern countries, which is pressing to ensure that the activities supported by export credit agencies (ECAs) are coherent with the environmental and developmental policies of the OECD and its Member countries.

We congratulate you on your appointment as Secretary General. We have been greatly encouraged by the commitment you have shown in recent speeches and interviews to combating poverty and environmental degradation, particularly climate change. We also applaud your insistence that the OECD should be “if you will, the house of best practice”. We agree that “[OECD] members have to be the shining examples.”¹

In light of the above, we are writing to convey our concerns on both:

- a) The direction that the OECD Export Credit Working Group (ECG) is taking in its revision of the 2003 OECD Recommendation on Common Approaches, and
- b) The failure to adequately enforce the OECD facilitated and WTO recognized Arrangement on Export Credits.

On both counts, we believe that the ECG has failed to live up to the standards you have so clearly enunciated for the OECD and fear that, if leadership is not shown, the reputation of the OECD will be severely damaged.

Specifically, we urge you and the Member Ambassadors to the OECD:

- To devote greater oversight to the proceedings of the ECG, possibly through an OECD cross-Directorate task force to address policy incoherence between the Common Approaches Recommendation and other OECD policies and positions.
- To institute a formal peer review of the ECG’s monitoring of the Participant’s adherence to the terms of the Arrangement.

Our concerns are set out in more detail below.

A. Recommendation on Common Approaches on Environment and Officially Supported Export Credits: Lagging behind International Best Practice

As you yourself have noted, the OECD is “the institution that identifies, analyzes, quantifies and assesses, and then proposes best practices to countries.”²

¹ Interview with OECD Secretary General Angel Gurría, United States Council for International Business, June 2006, <http://www.uscib.org/index.asp?documentID=3484>

² Interview with OECD Secretary General Angel Gurría, United States Council for International Business, June 2006, <http://www.uscib.org/index.asp?documentID=3484>

In support of that objective, NGOs have been actively pressing for the OECD's export credit agencies to adopt mandatory standards that reflect emerging best practice on environment, human rights and development. The lack of such standards will, in our view, only lead to a race to the bottom, with any one agency undermining the progressive efforts of others to improve the environmental and social outcome of projects.

We therefore regret that the OECD members in the Export Credit Working Group are entering another round of negotiations on the Recommendation on Common Approaches next week, on November 13th and 14th, with a text that allows them to freely deviate from whatever environmental and social standards they might commit to, requiring only that they report such deviations once a year to the OECD - but not even share such information publicly.

Furthermore, the standards and procedures they are proposing to adopt are weak and inadequate in the face of the environmental crisis we face - a crisis which, as you have eloquently stressed on many occasions, needs urgent action to be taken.

The proposed standards and procedures do not even match in important respects the standards adopted by the private sector. Forty-one of the world's leading commercial banks involved in some 90% of global project finance have accepted, in the July 2006 revisions of the Equator Principles, procedures and standards which, while still only voluntary and which we believe require more transparent monitoring, are nevertheless in some respects much closer to international environmental and social best practices than the proposed revisions of the Common Approaches.

Moreover, the policies of many Multilateral Development Banks, the members of which include most OECD members, also exceed the provisions of the proposed Common Approaches (e.g., public disclosure of information). It is in our view, a bizarre and unacceptable situation that, within the OECD, publicly supported and guaranteed member ECAs are proposing weaker environmental and social procedures for financial support of their activities than the world's leading private commercial banks and public multilateral banks.

In addition, the current negotiating draft, including proposed changes, for revisions in the Common Approaches, contradicts and is at odds with numerous official public commitments of the OECD, including recent statements on your part, on the OECD's mission. If this situation is not rectified, it can only lead to growing international public perceptions that the OECD is not capable of delivering on its publicly espoused goals.

OECD ECAs are major actors in projects valued at hundreds of billions of dollars which often have serious negative social and environmental impacts. The weakness of standards, the lax monitoring of them, and the lack of transparency and accountability in the whole Common Approaches process in the ECG belies the objectives of coherence, best practice and a level playing field contained in the general principles of the Recommendation.

It is imperative that the OECD is not seen to be allowing export credit agency finance to undermine internationally accepted good practice in the environmental and social sectors. As but one example, it is incongruous that, while negotiating a text to ostensibly strengthen standards and monitoring, a number of OECD ECAs are at the same time actively considering support for the Ilisu and Yusefeli dams in Turkey, the Sakhalin II oil and gas project in eastern Russia and the Camisea II pipeline and Liquefied Natural Gas project in Peru. These projects, according to their own studies, grossly deviate from these standards, and if approved will require the invocation of the current and proposed revised OECD Common Approaches Recommendation's derogation clauses. The high international public visibility of this contradiction can only contribute to public concern about the OECD's ability to maintain the most minimal coherence with its stated developmental, social and environmental goals in its negotiating fora, in this case, the Export Credit Group.

B. Failure to enforce the Arrangement on Officially Supported Export Credits

The OECD facilitated Arrangement on Officially Supported Export Credits is recognized by Article K of Annex I of the WTO Agreement on Subsidies and Countervailing Measures (ASCM)³ as providing a safe haven for limited subsidies.

It is an open secret that many of the credit facilities on offer from OECD ECAs breach the Arrangement. It has been acknowledged by one OECD government that its ECA is in receipt of a minimum annual subsidy of £150 million.⁴

Yet the Participants, and the ECG as their Secretariat, have failed to act. Such inaction not only undermines efforts to persuade non-OECD ECAs to raise their standards and level the playing field globally, it also brings the OECD into disrepute. The impression given is that ECAs are operating primarily to facilitate rent seeking by national corporations, to the disbenefit of society at large, and most shockingly, in heavily indebted developing countries.

We are also concerned by the lax collection of data by the ECG - data which is critical to enforcing the Arrangement. Article 23 of the Arrangement specifies that "premium rates charged by the Participants shall be risk-based, shall converge and shall not be inadequate to cover long-term operating costs and losses." Based on this provision, the WTO's Agreement on Subsidies and Countervailing Measures provides that "an export credit practice which is in conformity with those provisions shall not be considered an export subsidy prohibited by this Agreement."

The OECD is charged with monitoring this break-even requirement, both for Participants in the Arrangement, and on behalf of the WTO, and publishes annual cash flow data for ECAs as part of a peer review process intended to ensure adherence to non-subsidized premiums and interest rates and thus to demonstrate "break-even". ECA Watch has already pointed out⁵ the unnoticed and unexplained restatement of US\$1.44 Billion in Japan's export credit operating income in the OECD's 2004 compilation cash flow statistics. The OECD ECG Secretariat has indicated there is no uniform accounting standard by which ECAs report their cash flow results and that they are not aware of which ECAs use full cost accounting or not. This appears to demonstrate that there is no serious peer review process taking place to monitor ECA expenditures to subsidize export sales, and therefore no effective means of ensuring adherence to either OECD or WTO policies.

Proposed Action

As civil society organizations which wish to see the OECD play a credible, effective role in dealing with growing global social and environmental challenges, we believe that active leadership at this time is especially urgent. We urge you to use your good offices, in conjunction with initiatives under way in the G8, the European Presidency and other international fora, to impress on OECD members that:

- The negotiations to take place in Paris on November 13th and 14th must come to terms with the enormous gap between their suggested text and the imminent environmental and social crisis which demands serious standards and regulation;
- The Terms of the Arrangement must be honoured.

Specifically, we urge you and the Member Ambassadors to the OECD:

- To devote greater oversight to the proceedings of the Export Credit Group, encouraging Member representatives in that forum to take into account the statements you and the

³ http://www.wto.org/english/docs_e/legal_e/24-scm_01_e.htm

⁴ The UK Government has assessed the annual subsidy to ECGD at £150 million <http://www.dti.gov.uk/files/file16384.pdf>

⁵ http://www.eca-watch.org/problems/fora/oecd/oecd_data_discrepancies_30oct06.htm

OECD have made concerning the OECD's role to promote best practices and coherence. Concerned civil society organizations and an growing portion of the public in OECD countries expect that the Secretary General and Member Ambassadors will strongly encourage agreement in the Export Credit Group on a Common Approaches text that does not grossly contradict its stated objectives of achieving coherence with the developmental and environmental commitments of Members; an agreement that ensures a clear, unambiguous level playing field among Members concerning the environmental and social impacts of ECA supported activities. Certainly greatly increased transparency, clearer commitments to best practices of other institutions supporting the private sector, and more rigorous monitoring and implementation commitments are minimal steps in that direction. We have communicated to the Export Credit Group Secretariat our specific suggestions concerning needed improvements in the current draft negotiating text. For further detail and for your information, we have attached this document.

- One form that this could take would be an OECD cross-Directorate task force to address the policy incoherence between the Common Approaches Recommendation and other OECD policies and positions.
- Institute a formal, public peer review of ECG's monitoring of the Participant's adherence to the terms of the Arrangement.

We very much hope that you will be able to address these concerns and we look forward to your response to them.

Yours sincerely,



Bob Thomson
Facilitator
ECA Watch

On behalf of:

- The Corner House - UK
- Environmental Defense - USA
- Pacific Environment - USA
- Les Amis de la Terre - France
- Urgewald - Germany
- WEED - Germany
- Centre for International Environmental Law - USA
- Both Ends - Netherlands
- International Rivers Network - USA
- Berne Declaration - Switzerland
- Campagna per la Riforma della Banca Mondiale - Italy
- Halifax Initiative - Canada
- Friends of the Earth - Japan
- FERN - Belgium
- Proyecto Gato - Belgium
- Proyecto Eca-Iberia / Euronatura - Portugal
- ECA Watch - Austria
- Observatori del deute en la Globalitzacio - Spain

Cc: OECD Ambassadors
Pascal Lamy, WTO
ECG Secretariat

Attachment: Letter and Comments of ECA-Watch to Ms. Nicole Bollen, Chair, Export Credit Working Group, OECD, 9 November 2006