

## 10 REASONS TO DISMANTLE THE WORLD TRADE ORGANIZATION

Add a new constituency to the long list of World Trade Organization (WTO) critics which already includes consumers, labor, environmentalists, human rights activists, fair trade groups, AIDS activists, animal protection organizations, those concerned with Third World development, religious communities, women's organizations. The latest set of critics includes WTO backers and even the WTO itself.

As the WTO faces crystallized global opposition .. to be manifested in massive street demonstrations and colorful protests in Seattle, where the WTO will hold its Third Ministerial meeting from November 30 to December 3 .. the global trade agency and its strongest proponents veer between a shrill defensiveness and the much more effective strategy of admitting shortcomings and trumpeting the need for reform.

WTO critics now face a perilous moment. They must not be distracted by illusory or cosmetic reform proposals, nor by even more substantive proposals for changing the WTO -- should they ever emerge from the institution or its powerful rich country members. Instead, they should unite around an uncompromising demand to dismantle the WTO and its corporate-created rules.

### Here are 10 reasons why:

1. The WTO prioritizes trade and commercial considerations over all other values. WTO rules generally require domestic laws, rules and regulations designed to further worker, consumer, environmental, health, safety, human rights, animal protection or other non-commercial interests to be undertaken in the "least trade restrictive" fashion possible -- almost never is trade subordinated to these noncommercial concerns.

2. The WTO undermines democracy. Its rules drastically shrink the choices available to democratically controlled governments, with violations potentially punished with harsh penalties. The WTO actually touts this overriding of domestic decisions about how economies should be organized and corporations controlled. "Under WTO rules, once a commitment has been made to liberalize a sector of trade, it is difficult to reverse,"

### Inside

- ☞ 10 REASONS TO DISMANTLE THE WORLD TRADE ORGANIZATION
- ☞ A SHORT HISTORY OF NEO-LIBERALISM
- ☞ DEBACLE IN SEATTLE A BLOW-BY-BLOW ACCOUNT
- ☞ THE NATIONAL FORESTRY ACTION PLAN INDIA-A CRITIQUE
- ☞ ENVIRONMENTAL GROUPS CHALLENGE US GOVERNMENT RECOMMENDATIONS ON FORESTRY PRODUCT LIBERALISATION
- ☞ RESTRUCTURING OF POWER SECTOR : ROLE OF WORLD BANK
- ☞ PROJECT INFORMATION DOCUMENT (India-Uttar Pradesh Power Sector Restructuring Project)
- ☞ WORLD BANK RECIPES FOR FORCING REFORMS IN STATE OWNED ENTERPRISES

the WTO says in a paper on the benefits of the organization which is published on its web site. "Quite often, governments use the WTO as a welcome external constraint on their policies: 'we can't do this because it would violate the WTO agreements.'"

3. The WTO does not just regulate, it actively promotes, global trade. Its rules are biased to facilitate global commerce at the expense of efforts to promote local economic development and policies that move communities, countries and regions in the direction of greater self reliance.

4. The WTO hurts the Third World. WTO rules force Third World countries to open their markets to rich country multinationals, and abandon efforts to protect infant domestic industries. In agriculture, the opening to foreign imports, soon to be imposed on developing countries, will catalyze a massive social dislocation of many millions of rural people.

5. The WTO eviscerates the Precautionary Principle. WTO rules generally block countries from acting in response to potential risk -- requiring a probability before governments can move to resolve harms to human health or the environment.

6. The WTO squashes diversity. WTO rules establish international health, environmental and other standards as a global ceiling through a process of "harmonization;" countries or even states and cities can only exceed them by overcoming high hurdles.

7. The WTO operates in secrecy. Its tribunals rule on the "legality" of nations' laws, but carry out their work behind closed doors.

8. The WTO limits governments' ability to use their purchasing dollar for human rights, environmental, worker rights and other non-commercial purposes. In general, WTO rules state that governments can make purchases based only on quality and cost considerations.

9. The WTO disallows rules do not allow countries to treat products differently based on how they were produced -- irrespective of whether made with brutalized child labor, with workers exposed to toxics or with no regard for species protection.

10. The WTO legitimizes life patents. WTO rules permit and in some cases require patents or similar exclusive protections for life forms.

Some of these problems, such as the WTO's penchant for secrecy, could potentially be fixed, but the core problems -- prioritization of commercial over other values, the constraints on democratic decision-making and the bias against local economies -- cannot, for they are inherent in the WTO itself.

Because of these unfixable problems, the World Trade Organization should be shut down, sooner rather than later.

That doesn't mean interim steps shouldn't be taken. It does mean that beneficial reforms will focus not on adding new areas of competence to the WTO or enhancing its authority, even if the new areas appear desirable (such as labor rights or competition). Instead, the reforms to pursue are those that reduce or limit the WTO's power -- for example, by denying it the authority to invalidate laws passed pursuant to international environmental agreements, limiting application of WTO agricultural rules in the Third World, or eliminating certain subject matters (such as essential medicines or life forms) from coverage under the WTO's intellectual property agreement.

These measures are necessary and desirable in their own right, and they would help generate momentum to close down the WTO.

**By Russell Mokhiber and Robert Weissman Comment on this, send a message to :  
([russell@essential.org](mailto:russell@essential.org) or [rob@essential.org](mailto:rob@essential.org))**



# A SHORT HISTORY OF NEO-LIBERALISM

---

In 1945 or 1950, if you had seriously proposed any of the ideas and policies in today's standard neo-liberal toolkit, you would have been laughed off the stage at or sent off to the insane asylum. At least in the Western countries, at that time, everyone was a Keynesian, a social democrat or a social-Christian democrat or some shade of Marxist. The idea that the market should be allowed to make major social and political decisions; the idea that the State should voluntarily reduce its role in the economy, or that corporations should be given total freedom, that trade unions should be curbed and citizens given much less rather than more social protection--such ideas were utterly foreign to the spirit of the time. Even if someone actually agreed with these ideas, he or she would have hesitated to take such a position in public and would have had a hard time finding an audience.

However incredible it may sound today, particularly to the younger members of the audience, the IMF and the World Bank were seen as progressive institutions. They were sometimes called Keynes's twins because they were the brain-children of Keynes and Harry Dexter White, one of Franklin Roosevelt's closest advisors. When these institu-

tions were created at Bretton Woods in 1944, their mandate was to help prevent future conflicts by lending for reconstruction and development and by smoothing out temporary balance of payments problems. They had no control over individual government's economic decisions nor did their mandate include a licence to intervene in national policy.

In the Western nations, the Welfare State and the New Deal had got underway in the 1930s but their spread had been interrupted by the war. The first order of business in the post-war world was to put them back in place. The other major item on the agenda was to get world trade moving--this was accomplished through the Marshall Plan which established Europe once again as the major trading partner for the US, the most powerful economy in the world. And it was at this time that the strong winds of decolonisation also began to blow, whether freedom was obtained by grant as in India or through armed struggle as in Kenya, Vietnam and other nations.

On the whole, the world had signed on for an extremely progressive agenda. The great scholar Karl Polanyi published his masterwork, *The Great Transformation* in 1944, a fierce critique of 19th

century industrial, market-based society. Over 50 years ago Polanyi made this amazingly prophetic and modern statement: "To allow the market mechanism to be sole director of the fate of human beings and their natural environment... would result in the demolition of society" [p.73]. However, Polanyi was convinced that such a demolition could no longer happen in the post-war world because, as he said [p.251], "Within the nations we are witnessing a development under which the economic system ceases to lay down the law to society and the primacy of society over that system is secured".

Alas, Polanyi's optimism was misplaced--the whole point of neo-liberalism is that the market mechanism should be allowed to direct the fate of human beings. The economy should dictate its rules to society, not the other way around. And just as Polanyi foresaw, this doctrine is leading us directly towards the "demolition of society".

So what happened? Why have we reached this point half a century after the end of the Second World War? Or, as the organisers ask, "Why are we having this conference right now?" The short answer is "Because of the series of recent financial crises, especially in Asia".

But this begs the question--the question they are really asking is "How did neo-liberalism ever emerge from its ultra-minoritarian ghetto to become the dominant doctrine in the world today?" Why can the IMF and the Bank intervene at will and force countries to participate in the world economy on basically unfavourable terms. Why is the Welfare State under threat in all the countries where it was established? Why is the environment on the edge of collapse and why are there so many poor people in both the rich and the poor countries at a time when there has never existed such great wealth? Those are the questions that need to be answered from an historical perspective.

As I've argued in detail in the US quarterly journal *Dissent*, one explanation for this triumph of neo-liberalism and the economic, political, social and ecological disasters that go with it is that neo-liberals have bought and paid for their own vicious and regressive "Great Transformation". They have understood, as progressives have not, that ideas have consequences. Starting from a tiny embryo at the University of Chicago with the philosopher-economist Friedrich von Hayek and his students like Milton Friedman at its nucleus, the neo-liberals and their funders have created a huge international network of foundations, institutes, research centers,

publications, scholars, writers and public relations hacks to develop, package and push their ideas and doctrine relentlessly.

They have built this highly efficient ideological cadre because they understand what the Italian Marxist thinker Antonio Gramsci was talking about when he developed the concept of cultural hegemony. If you can occupy peoples' heads, their hearts and their hands will follow. I do not have time to give you details here, but believe me, the ideological and promotional work of the right has been absolutely brilliant. They have spent hundreds of millions of dollars, but the result has been worth every penny to them because they have made neo-liberalism seem as if it were the natural and normal condition of humankind. No matter how many disasters of all kinds the neo-liberal system has visibly created, no matter what financial crises it may engender, no matter how many losers and outcasts it may create, it is still made to seem inevitable, like an act of God, the only possible economic and social order available to us.

Let me stress how important it is to understand that this vast neo-liberal experiment we are all being forced to live under has been created by people with a purpose. Once you grasp this, once you understand that neo-liberalism is not a force like gravity but a totally

artificial construct, you can also understand that what some people have created, other people can change. But they cannot change it without recognising the importance of ideas. I'm all for grassroots projects, but I also warn that these will collapse if the overall ideological climate is hostile to their goals.

So, from a small, unpopular sect with virtually no influence, neo-liberalism has become the major world religion with its dogmatic doctrine, its priesthood, its law-giving institutions and perhaps most important of all, its hell for heathen and sinners who dare to contest the revealed truth. Oskar Lafontaine, the ex-German Finance Minister who the *Financial Times* called an "unreconstructed Keynesian" has just been consigned to that hell because he dared to propose higher taxes on corporations and tax cuts for ordinary and less well-off families.

Having set the ideological stage and the context, now let me fast-forward so that we are back in the twenty year time frame. That means 1979, the year Margaret Thatcher came to power and undertook the neo-liberal revolution in Britain. The Iron Lady was herself a disciple of Friedrich von Hayek, she was a social Darwinist and had no qualms about expressing her convictions. She was well known for justifying her programme with the single

word TINA, short for There Is No Alternative. The central value of Thatcher's doctrine and of neo-liberalism itself is the notion of competition--competition between nations, regions, firms and of course between individuals. Competition is central because it separates the sheep from the goats, the men from the boys, the fit from the unfit. It is supposed to allocate all resources, whether physical, natural, human or financial with the greatest possible efficiency.

In sharp contrast, the great Chinese philosopher Lao Tzu ended his Tao-te Ching with these words: "Above all, do not compete". The only actors in the neo-liberal world who seem to have taken his advice are the largest actors of all, the Transnational Corporations. The principle of competition scarcely applies to them; they prefer to practise what we could call Alliance Capitalism. It is no accident that, depending on the year, two-thirds to three-quarters of all the money labeled "Foreign Direct Investment" is not devoted to new, job-creating investment but to Mergers and Acquisitions which almost invariably result in job losses.

Because competition is always a virtue, its results cannot be bad. For the neo-liberal, the market is so wise and so good that like God, the Invisible Hand can bring good out of apparent evil. Thus Thatcher once said in a

speech, "It is our job to glory in inequality and see that talents and abilities are given vent and expression for the benefit of us all." In other words, don't worry about those who might be left behind in the competitive struggle. People are unequal by nature, but this is good because the contributions of the well-born, the best-educated, the toughest, will eventually benefit everyone. Nothing in particular is owed to the weak, the poorly educated, what happens to them is their own fault, never the fault of society. If the competitive system is "given vent" as Margaret says, society will be the better for it. Unfortunately, the history of the past twenty years teaches us that exactly the opposite is the case.

In pre-Thatcher Britain, about one person in ten was classed as living below the poverty line, not a brilliant result but honourable as nations go and a lot better than in the pre-War period. Now one person in four, and one child in three is officially poor. This is the meaning of survival of the fittest: people who cannot heat their houses in winter, who must put a coin in the meter before they can have electricity or water, who do not own a warm waterproof coat, etc. I am taking these examples from the 1996 report of the British Child Poverty Action Group. I will illustrate the result of the Thatcher-Major "tax reforms" with a single example: During the 1980s, 1

percent of taxpayers received 29 percent of all the tax reduction benefits, such that a single person earning half the average salary found his or her taxes had gone up by 7 percent, whereas a single person earning 10 times the average salary got a reduction of 21%.

Another implication of competition as the central value of neo-liberalism is that the public sector must be brutally downsized because it does not and cannot obey the basic law of competing for profits or for market share. Privatisation is one of the major economic transformations of the past twenty years. The trend began in Britain and has spread throughout the world.

Let me start by asking why capitalist countries, particularly in Europe, had public services to begin with, and why many still do. In reality, nearly all public services constitute what economists call "natural monopolies". A natural monopoly exists when the minimum size to guarantee maximum economic efficiency is equal to the actual size of the market. In other words, a company has to be a certain size to realise economies of scale and thus provide the best possible service at the lowest possible cost to the consumer. Public services also require very large investment outlays at the beginning--like railroad tracks or power grids--which does not encourage competition either. That's why public monopolies

were the obvious optimum solution. But neo-liberals define anything public as ipso facto "inefficient".

So what happens when a natural monopoly is privatised? Quite normally and naturally, the new capitalist owners tend to impose monopoly prices on the public, while richly remunerating themselves. Classical economists call this outcome "structural market failure" because prices are higher than they ought to be and service to the consumer is not necessarily good. In order to prevent structural market failures, up to the mid-1980s, the capitalist countries of Europe almost universally entrusted the post office, telecomms, electricity, gas, railways, metros, air transport and usually other services like water, rubbish collection, etc. to state-owned monopolies. The USA is the big exception, perhaps because it is too huge geographically to favour natural monopolies.

In any event, Margaret Thatcher set out to change all that. As an added bonus, she could also use privatisation to break the power of the trade unions. By destroying the public sector where unions were strongest, she was able to weaken them drastically. Thus between 1979 and 1994, the number of jobs in the public sector in Britain was reduced from over 7 million to 5 million, a drop of 29 percent. Virtually all the jobs eliminated were unionised jobs. Since private sector em-

ployment was stagnant during those fifteen years, the overall reduction in the number of British jobs came to 1.7 million, a drop of 7% compared to 1979. To neo-liberals, fewer workers is always better than more because workers impinge on shareholder value.

As for other effects of privatisation, they were predictable and predicted. The managers of the newly privatised enterprises, often exactly the same people as before, doubled or tripled their own salaries. The government used taxpayer money to wipe out debts and recapitalise firms before putting them on the market--for example, the water authority got 5 billion pounds of debt relief plus 1.6 billion pounds called the "green dowry" to make the bride more attractive to prospective buyers. A lot of Public Relations fuss was made about how small stockholders would have a stake in these companies--and in fact 9 million Brits did buy shares--but half of them invested less than a thousand pounds and most of them sold their shares rather quickly, as soon as they could cash in on the instant profits.

From the results, one can easily see that the whole point of privatisation is neither economic efficiency or improved services to the consumer but simply to transfer wealth from the public purse--which could redistribute it to even out social inequalities--to private hands. In Britain and

elsewhere, the overwhelming majority of privatised company shares are now in the hands of financial institutions and very large investors. The employees of British Telecom bought only 1 percent of the shares, those of British Aerospace 1.3 percent, etc. Prior to Ms Thatcher's onslaught, a lot of the public sector in Britain was profitable. Consequently, in 1984, public companies contributed over 7 billion pounds to the treasury. All that money is now going to private shareholders. Service in the privatised industries is now often disastrous--the Financial Times reported an invasion of rats in the Yorkshire Water system and anyone who has survived taking Thames trains in Britain deserves a medal.

Exactly the same mechanisms have been at work throughout the world. In Britain, the Adam Smith Institute was the intellectual partner for creating the privatisation ideology. USAID and the World Bank have also used Adam Smith experts and have pushed the privatisation doctrine in the South. By 1991 the Bank had already made 114 loans to speed the process, and every year its Global Development Finance report lists hundreds of privatisations carried out in the Bank's borrowing countries.

I submit that we should stop talking about privatisation and use words that tell the truth: we are talking about al-

ienation and surrender of the product of decades of work by thousands of people to a tiny minority of large investors. This is one of the greatest hold-ups of ours or any generation.

Another structural feature of neo-liberalism consists in remunerating capital to the detriment of labour and thus moving wealth from the bottom of society to the top. If you are, roughly, in the top 20 percent of the income scale, you are likely to gain something from neo-liberalism and the higher you are up the ladder, the more you gain. Conversely, the bottom 80 percent all lose and the lower they are to begin with, the more they lose proportionally.

Lest you thought I had forgotten Ronald Reagan, let me illustrate this point with the observations of Kevin Phillips, a Republican analyst and former aid to President Nixon, who published a book in 1990 called *The Politics of Rich and Poor*. He charted the way Reagan's neo-liberal doctrine and policies had changed American income distribution between 1977 and 1988. These policies were largely elaborated by the conservative Heritage Foundation, the principle think-tank of the Reagan administration and still an important force in American politics. Over the decade of the 1980s, the top 10 percent of American families increased their average family income by 16 percent, the top 5 percent increased

theirs by 23 percent, but the extremely lucky top 1 percent of American families could thank Reagan for a 50 percent increase. Their revenues went from an affluent \$270.000 to a heady \$405.000. As for poorer Americans, the bottom 80 percent all lost something; true to the rule, the lower they were on the scale, the more they lost. The bottom 10 percent of Americans reached the nadir: according to Phillip's figures, they lost 15% of their already meagre incomes: from an already rock-bottom average of \$4.113 annually, they dropped to an inhuman \$3.504. In 1977, the top 1 percent of American families had average incomes 65 times as great as those of the bottom 10 percent. A decade later, the top 1 percent was 115 times as well off as the bottom decile.

America is one of the most unequal societies on earth, but virtually all countries have seen inequalities increase over the past twenty years because of neo-liberal policies. UNCTAD published some damning evidence to this effect in its 1997 Trade and Development Report based on some 2600 separate studies of income inequalities, impoverishment and the hollowing out of the middle classes. The UNCTAD team documents these trends in dozens of widely differing societies, including China, Russia and the other former Socialist countries.

There is nothing mysterious about this trend towards greater inequality. Policies are specifically designed to give the already rich more disposable income, particularly through tax cuts and by pushing down wages. The theory and ideological justification for such measures is that higher incomes for the rich and higher profits will lead to more investment, better allocation of resources and therefore more jobs and welfare for everyone. In reality, as was perfectly predictable, moving money up the economic ladder has led to stock market bubbles, untold paper wealth for the few, and the kind of financial crises we shall be hearing a lot about in the course of this conference. If income is redistributed towards the bottom 80 percent of society, it will be used for consumption and consequently benefit employment. If wealth is redistributed towards the top, where people already have most of the things they need, it will go not into the local or national economy but to international stockmarkets.

As you are all aware, the same policies have been carried out throughout the South and East under the guise of structural adjustment, which is merely another name for neo-liberalism. I've used Thatcher and Reagan to illustrate the policies at the national level. At the international level, neo-liberals have concentrated all their efforts on three

fundamental points:

- ⇒ free trade in goods and services
- ⇒ free circulation of capital
- ⇒ freedom of investment

Over the past twenty years, the IMF has been strengthened enormously. Thanks to the debt crisis and the mechanism of condition-ality, it has moved from balance of payments support to being quasi-universal dictator of so-called "sound" economic policies, meaning of course neo-liberal ones. The World Trade Organisation was finally put in place in January 1995 after long and laborious negotiations, often rammed through parliaments which had little idea what they were ratifying. Thankfully, the most recent effort to make binding and universal neo-liberal rules, the Multilateral Agreement on Investment, has failed, at least temporarily. It would have given all rights to corporations, all obligations to governments and no rights at all to citizens.

The common denominator of these institutions is their lack of transparency and democratic accountability. This is the essence of neo-liberalism. It claims that the economy should dictate its rules to society, not the other way around. Democracy is an encumbrance, neo-liberalism is designed for winners, not for voters who, necessarily encompass the categories of both winners and losers.

I'd like to conclude by asking you to take very

seriously indeed the neo-liberal definition of the loser, to whom nothing in particular is owed. Anyone can be ejected from the system at any time--because of illness, age, pregnancy, perceived failure, or simply because economic circumstances and the relentless transfer of wealth from top to bottom demand it. Shareholder value is all. Recently the International Herald Tribune reported that foreign investors are "snapping up" Thai and Korean companies and Banks. Not surprisingly, these purchases are expected to result in "heavy layoffs".Footnote1

In other words, the results of years of work by thousands of Thais and Koreans is being transferred into foreign corporate hands. Many of those who laboured to create that wealth have already been, or soon will be left on the pavement. Under the principles of competition and maximising shareholder value, such behaviour is seen not as criminally unjust but as normal and indeed virtuous.

I submit that neo-liberalism has changed the fundamental nature of politics. Politics used to be primarily about who ruled whom and who got what share of the pie. Aspects of both these central questions remain, of course, but the great new central question of politics is, in my view, "Who has a right to live and who does not". Radical exclusion is now the order of the day, I

mean this deadly seriously.

I've given you rather a lot of bad news because the history of the past 20 years is full of it. But I don't want to end on such a depressing and pessimistic note. A lot is already happening to counter these life-threatening trends and there is enormous scope for further action.

This conference is going to help define much of that action which I believe must include an ideological offensive. It's time we set the agenda instead of letting the Masters of the Universe set it at Davos. I hope funders may also understand that they should not be funding just projects but also ideas. We can't count on the neo-liberals to do it, so we need to design workable and equitable international taxation systems, including a Tobin Tax on all monetary and financial market transactions and taxes on Transnational Corporation sales on a pro-rata basis. I expect we will go into detail on such questions in the workshops here. The proceeds of an international tax system should go to closing the North-South gap and to redistribution to all the people who have been robbed over the past twenty years.

Let me repeat what I said earlier: neo-liberalism is not the natural human condition, it is not supernatural, it can be challenged and replaced because its own failures will require this. We have to be

ready with replacement policies which restore power to communities and democratic States while working to institute democracy, the rule of law and fair distribution at the international level. Business and the market have their place, but this place cannot occupy the entire sphere of human existence.

Further good news is that there is plenty of money sloshing around out there and a tiny fraction, a ridiculous, infinitesimal proportion of it would be enough to provide a decent life to every person on earth, to supply universal health and education, to clean up the environment and prevent further destruction to the planet, to close the North-

South gap--at least according to the UNDP which calls for a paltry \$40 billion a year. That, frankly, is peanuts.

Finally, please remember that neo-liberalism may be insatiable but it is not invulnerable. A coalition of international activists only yesterday obliged them to abandon, at least temporarily, their project to liberalise all investment through the MAI. The surprise victory of its opponents infuriated the supporters of corporate rule and demonstrates that well organised network guerillas can win battles. Now we have to regroup our forces and keep at them so that they cannot transfer the MAI to the WTO.

Look at it this way.

We have the numbers on our side, because there are far more losers than winners in the neo-liberal game. We have the ideas, whereas theirs are finally coming into question because of repeated crisis. What we lack, so far, is the organisation and the unity which in this age of advanced technology we can overcome. The threat is clearly transnational so the response must also be transnational. Solidarity no longer means aid, or not just aid, but finding the hidden synergies in each other's struggles so that our numerical force and the power of our ideas become overwhelming. I'm convinced this conference will contribute mightily to this goal and I thank you all for your kind attention.

*Susan George*

*(Conference on 'Economic Sovereignty in a Globalising World')*

*Bangkok, 24-26 March 1999*



## **DEBACLE IN SEATTLE**

### **A BLOW-BY-BLOW ACCOUNT**

The Third Ministerial of the World Trade Organisation (WTO) ended in massive and total collapse shortly before midnight tonight as negotiators failed to agree on a common declaration and on a new round of negotiations. As the host of the meeting, the US suffered its worst diplomatic debacle since the Iran hostage crisis in 1979.

The talks fell victim to a combination of internal disagreements and tremendous and unrelent-

ing protests by demonstrators on the outside. Protesters outside the Seattle county jail seeking release of some 400 of their comrades broke out into cheers at news of their total victory over the trade organisation. Grassroots democracy 1, corporate globalisation 0, declared a jubilant Lori Wallach, head of Ralph Nader's Citizens Trade Campaign.

Internally, delegates had failed to bridge differences on the issues of agricultural liberalisation,

trade in genetically modified organisms, trade and labour standards, and transparency in decision-making. At the press conference announcing failure of the talks, both US Trade Representative Charlene Barshefsky and WTO Director General Mike Moore admitted that the organisation's decision-making processes needed to be reviewed.

#### **Toward Apocalypse**

As the WTO Ministerial hurtled toward apoca-

lypse earlier in the day, the frustrations of developing countries mounted over their marginalisation from the negotiations. Venting the anger of many delegations at an early morning press conference at the Madison Renaissance Hotel, Clement Rohee, the foreign affairs minister of Guyana, said, We see processes manipulated by a few countries behind closed doors.

Frustrations were also rife in the streets. Marches and demonstrations had continued in the previous two days, the most notable being a spontaneous march of about over 1,000 people to a county jail holding several hundred protesters apprehended by police over the last three days. The dynamics outside and inside the ministerial meeting interacted in an interesting way. While few developing country delegations shared the priority placed on environmental and workers' rights by the thousands of demonstrators that had converged on this city, the show of anger on the streets emboldened many Third World country delegates to resist the non-transparent methods by which the US and European Union have traditionally tried to push their trade objectives. Transparency was the demand that linked many delegates inside and the protesters outside.

### **Heavy-handedness Backfires**

As Friday, 3 December began, the US was

headed for defeat on two key issues, largely due to heavy-handed diplomacy. Fierce opposition from developing countries apparently scuttled Washington's proposal to set up a Working Group to 'study' the link between trade and labour standards. President Bill Clinton is now seen as having contributed to this outcome, since it was his statement to a Seattle newspaper that the WTO should use trade sanctions to enforce labour rights that angered many developing country delegates. The Americans' push to set up a Working Group on trade on genetically modified products also backfired. EU Trade Minister Pascal Lamy's apparent caving in to US pressure on the first day of the negotiations triggered the ire of the environmental and trade ministers of several European countries, forcing the EU to take back its agreement with Washington. The opposition to the establishment of such a working party was widely shared, and the reason for it was underlined in a statement issued by a number of Filipino NGOs lobbying Asian governments in Seattle:

The WTO... is not the proper forum under which rules governing trade in biotechnology should be negotiated. Such rules should be deliberated upon and negotiated within the context of the negotiations for the Biosafety Protocol under the UN Convention on Biodiversity. The potential

social, environmental and health risks that may arise from trade in GMOs are better addressed in environmental negotiations rather than in trade negotiations.

### **Stalemate in Agriculture**

Much of the energy of Asian NGOs like the Southeast Asia Council on Food Security and Fair Trade was directed at influencing the text of the ministerial declaration on agriculture. Thus, they were able to closely follow the collapse of the negotiations in this sector. According to Philippine Agriculture Secretary Edgardo Angara, developing countries within the 'Cairns Group' of developed and developing agro-exporting countries came to Seattle with a strong stand on getting the ministerial to accept a strong language on the special and differential treatment of the agricultural policies of developing countries. The draft of the text on agriculture issued by the working committee on agriculture reflected this: it stated that S&D would no longer be embodied simply in schedules of concessions and commitments but, according to the latest draft ministerial text, in the rules and disciplines to be negotiated, so as to be more operationally effective and so as to enable developing countries, while undertaking commitments and providing concessions, to take account of their development needs, including food security and agricul-

tural and rural development.

On the other hand, EU intransigence forced representatives of other countries to retreat to softer wording on the section on agricultural subsidies and domestic support that was more favourable to its interests. Instead of calling for the 'elimination' of export subsidies and domestic support, the second day's draft called for 'substantial reductions.' A pet EU term, 'multifunctionality,' was expunged from the Seattle drafts. The term refers to the idea that international trade rules must take into consideration the fact that agriculture is not just an area of production but fulfils other important functions such as sustaining the environment, food security, culture, and the regional landscape. The term is widely regarded as justifying protectionism. Some observers said, however, that the essence of multifunctionality was retained in this draft, which called on the negotiations to take into account 'non-trade concerns' that include the need to protect the environment, food security, the economic viability and development of rural areas, and food safety, without prejudice to the Agreement on the Application of Sanitary and Phytosanitary measures. Filipino and Southeast Asian NGO delegates, however, evinced dissatisfaction over the various drafts. One criticism was that specific mention was not made of US practices

that distort agricultural trade, notably the use of export credits and dumping. Another source of disappointment was the elimination from the latest draft of references to 'tariff peaks' and 'tariff escalation,' two methods by which the EU and US discriminate against products developing country agricultural exports. The biggest frustrations of the NGOs, however, stemmed from the failure of the text to make the objective of meeting food security central in global agricultural trade and the absence of any commitment to meeting the needs of the poor net food-importing countries. But even without the NGO concerns taken into consideration, the negotiations among the governments were not enough to bridge the differences in agriculture. And the talks in agriculture, in turn, reflected the frustrating dynamic of the doomed negotiations as a whole.

### **Unravelling**

By late afternoon, these were going nowhere at the Convention Center, which was still surrounded by police and National Guardsmen. At that point, said Edcel Custodio, head of the Philippine government's trade delegation in Geneva, two blocs of countries, one from Africa and one from Latin America and the Caribbean, formally issued very strong statements indicating that, if the same level transparency persisted, they would

withhold their approval from any proposed declaration, thus torpedoing any common statement, since the WTO is supposed to work by 'consensus.' By this time, the process of backroom negotiations known as 'green rooms' or 'super-green rooms,' observed a member of the press, had gotten so many Third World delegates so angry that they were threatening to walk out. Catcalls and boos now greeted Ministerial Meeting Chairman Charlene Barshefsky's interventions, which came across more and more as high-handed. The EU and US' effort to rope some 18 to 20 selected countries to make a last ditch attempt to forge a declaration, with no obvious criteria for membership in such a body, was the last straw. By 9:30 p.m., in fact, it was becoming increasingly clear that there would be no declaration, said Philippine agriculture secretary Angara. By then, all sorts of rumours were circulating on face-saving formulas. In the end, the outcome of no declaration and no agreement on a new round was the worst possible for the US hosts.

### **The Magic Combination**

There were many factors that contributed to the WTO collapse in Seattle, but it was the combination of the WTO's coming to Seattle with a ministerial draft that reflected so many differences, the deep rift between the EU and US on key issues, and the multi-

nous mood of developing country delegates amidst an unprecedented popular mobilisation and protest in the streets that unhinged the negotiations and, indeed, the WTO itself as an institution.

With the collapse of the Seattle talks, governments will return to Geneva, where negotiations in agriculture, services, and implementation, which were mandated by the 1994 Marrakesh Ac-

cord, begin sometime in January. But with the lack of a consensus declaration specifying key issues to be negotiated and setting schedules for completion, even holding these limited negotiations will prove to be a Herculean task.

**Walden Bello, TNI Fellow  
Business World, 6 December 1999**

**(Source : <http://www.tni.org/archives/bello/debacle.htm>)**



## **THE NATIONAL FORESTRY ACTION PLAN INDIA- A CRITIQUE**

The National forestry Action Plan (NFAP), prepared by the Ministry of Environment & Forest, Government of India, in June 1999, is yet another attempt to take up steps to improve deteriorating situation of forests in India. On a cursory look the intention appears to be good but as is customary in the official reports and documents, the report is lopsided in more ways than one.

A closer scrutiny of the NFAP reveals many important gaps.

The NFAP is conceived by the Government officials alone. It has not carried out any exercise of interaction and consultation with the communities dependent on forests, various field-based groups engaged in the working on forest issues, forest professionals, academicians and activists working hand in hand with the communities dependent on forests. Hence it is not surprising that the report is totally devoid of any peoples'

perspective and vision in its content.

The NFAP adopts a myopic view of the forests, akin to the western concept, whereas in an overpopulated developing country like India 60 to 70% of the population is directly or obliquely dependent on the natural forests for their survival. This is in contrast to the west where artificially generated monolithic unstratified forests primarily have commercial and recreational value.

The facts have been moulded in a manner suiting the officially held notions, official views have been over-stretched giving a tainted view, some of the important aspects have been overlooked, especially the areas of conflicts between the official agencies and the people dependent on the forests.

Shifting cultivation (Jhum) has been listed as the first factor in putting pressure on forests, estimating that 10 million ha of forests are subjected to

it. The figures of increase in tribal population, from 5.7% in 1991 to 8% in 1991, are shown as a proof of it. This is a wrong assumption. A relatively higher segment of the tribal population is not involved in shifting cultivation owing to a host of reasons: denial of access to forest, depletion of the resource base, displacement due to development projects in a large numbers, migration to urban centers, shifting of occupation to non-traditional fields by the tribals and so on and so forth.

The estimates of total land under shifting cultivation vary from 5 million ha to 11.5 million ha and the World Bank's estimate of 10 million ha has been accepted, merely on conjectural basis. Similarly there is no consensus on the number of people involved in shifting cultivation, which ranges from 3 to 26 million. It has been claimed that the shifting cultivation is practiced in 16 states.

The point is if the MOEF considers the problem as the most severe one, then why it has failed to carry out any field survey so far, despite a whole army of forest officials at its disposal in every nook and corner of the country. This glossing over appears to be a case of convenience to shift the blame on a community which can not defend itself against the official propaganda. Hence there is an acute need to carry out this exercise without any further delay to ascertain the total quantum of land and number of people involved rather than conjecture.

The complicated issue of conflicts between the tribals and officials has been oversimplified and just in one line it has been suggested that the Forest Department may be given the responsibility for the over all development of tribals villages, surmising that this would provide solution to problems that such communities are facing from generation. Here, the very fact that in 90% of such conflicts, the forest officials are involved, has been conveniently overlooked and such a solution will merely aggravate the problem no end.

The 18% cattle population of the world is based in India. The report states that grazing by cattle in forests is causing serious damage to regeneration and productivity. The report itself admits that "In the absence of adequate productive pasture

lands and a grazing policy, since independence there forests have become the has neither been any

### **Forests of India - An Overview\***

#### **Backdrop**

⇒ India is one of the 12-mega diversity centers (Vavilov Zones) with 7% of world's biodiversity and 16 major forest types, supporting a wide variety of flora and fauna. More than 5150 species of plants, 16,214 species of insects, 44 mammals, 42 birds and 164 reptiles, 121 amphibians and 435 species are endemic in the ecosystem of the country. Moreover out of the 18 unique biodiversity 'hot-spots' which are storehouses of nearly 50,000 species or about 20% of the world's flora, two are located in India i.e. north-eastern Himalayas and the Western Ghats.

⇒ India has a recorded forest area of 76.5 Mha or 23.3% of the total geographical area (i.e. 328.7Mha). But the actual forest cover is 63.34 Mha (19.27% of the total area) of which 26.13 are degraded. There is another 5.72 Mha scrub in addition to the forest cover. Thus in total 31.85 Mha forests in the country are degraded or open.

⇒ The approximate extent of forests on functional basis are:

Protection forests	- 10 Million ha
Production forests	- 15 Million ha
Social forests	- 25 Million ha
Protected area network	- 14.8 Million ha

⇒ There are other woodlands established in small blocks (less than 25 ha) on non-forest lands which are not included in the forest cover estimation. The FAO (1995) has put such area at 17.7 Mha, which is in congruence with the ground truth collection and field surveys in Haryana. The MOEF, however, considering variation of tree cover in the 26 states and 6 union territories of the country, puts this area under tree cover at 16 Mha.

⇒ Thus the total area under forest and tree cover in the country is 79.34 Mha or 24.13% of the total area of the country which is less than the goal of the 33% area under forest or tree cover set by the National Forest Policy in 1988.

⇒ Forests contribute 1.7% to the GDP of the country. This does not include numerous non-market benefits, vast amounts of fuelwood and fodder collected, fuelwood and timber harvested illegally and collection of various non-wood forest products by the villagers.

**\*Source: National Forestry Action Plan India, MOEF, Govt. of India, June 1999.**

major source of grazing and fodder. It is estimated that around 60% of the livestock (about 270 million) graze in forests".

Now the crucial question is why such a situation has been allowed to continue for five decades? The very fact, that

systematic effort nor any plan chalked out to deal with the problem by the officials, is in itself a glittering testimony to the efficiency and far sightedness of the forest policy planners. It acquires grave proportions when seen in the light of

the fact that 78% of forests in the country are affected by the impacts of grazing, as mentioned in the report.

The 'participation of people' in forestry has been very vaguely narrated. Though it has been mentioned clearly that 'villagers, particularly those living in and around forests, are much more likely to protect forests if they have a stake in forest management and are assured of a significant share of benefits'. It has also been stated that 'effective and sustainable participation should be based on a system that is clearly understood and accepted by all parties. The system may define the scope, nature and intensity of participation, rights, responsibilities and incentives'. Lofty words in the background of the fact that it has been simply left at this stage and there are no guidelines/parameters to evolve such a system. If the MOEF can not evolve this then who will take up this task?

Despite the failures of earlier initiatives involving communities in the management of forests (like Joint Forest Management Program, Social Forestry Program, etc.), it is evident that no lessons have been learnt from these failures. The core issues responsible for the all-round collapse of such initiatives have not been paid any attention. There are no well-defined guidelines for sharing power and allocating responsibilities to the communi-

ties. Even the basic parameters to evolve such guidelines are completely missing. In the absence of any such mechanism, the "peoples' participation" in forest activities remains a lip service.

A number of vital issues, crucial for the survival of the tribal and forest dependent communities, have been left untouched. These include:

- i. Agriculture lands of tribals in the forests;
- ii. Access to forest for collection of minor forest produce;
- iii. Issue of grazing by the cattle owned by tribals;
- iv. Rights of people in the newly created parks and sanctuaries;
- v. Dispute solving mechanism and many others.

The text is absolutely silent on how it plans to upgrade the degraded forests, with the help of the concerned in-situ communities. Moreover, it is equally silent on the issue of peoples' participation in the non-degraded forests and other protected areas, which are at the crux of the conflicts between people versus conservation. Unless this aspect is resolved to the satisfaction of both the parties, there is no remote chance of any major plan initiative to bring the desired results.

The most disturbing element of the text is that it treats forests as a major source of providing revenue to the Govt. This is why in these times of liberalization and market forces, overwhelming

emphasis has been paid on timber operations, whereas the first precondition for any conservation strategy to succeed, shall naturally incorporate a total ban on timber operation. Hence, its stated intention of "increasing productivity" has to be viewed in the context of increasing revenue only and not in terms of providing benefits to the dependent communities. This is fraught with potential dangers and long term adverse impacts as this will lead to the commercialization of the natural forests. It will also result in the reduction of biodiversity as the non-commercial species will be systematically replaced by the commercial species. Consequently, the stratification of the natural forests will be drastically reduced hitting the dependent communities as it is from the wide range of varieties of a stratified natural forests which is a store-house of diverse supplies for them.

It is really ironical that the 'productivity' and 'sustainability' have been referred in a united manner, whereas in fact the two are contradictory in the sense that the natural corollary of increasing productivity will be a decreased sustainability. Similarly the 'demand and supply' concept only takes into account the market mechanisms and not the needs and requirements of the communities dependent on forests and the projected population growth rate in them. With

the thrust being on 'demand and supply', there is every possibility that village forests and agro-forestry plots will be utilized for such a commercialization.

The supply of fuelwood for rural consumption has also been cited as one of the important factors for the deteriorating state of forests in India. Again the question which naturally comes to mind is why the officials of MOEF and state forest departments have failed in devising some joint strategies with other government agencies (like Department of Non-conventional Energy) to popularize other sources of energy for domestic utilization? Is it a result of rigid compartmentalization where the left hand does not know what the right hand is doing? The situation looks ominous in the background of the fact

that the projected total annual household fuelwood consumption in India is estimated to be 200 million tonnes, out of which 187 million tonnes will be in the rural areas. It demands an acute attention and reappraisal of the social forestry and weed out the bottlenecks, if the pressure on the forest is to be released, as the forests developed under social forestry were having only this aim.

The admittance of the fact that compensatory afforestation has been done in a lackadaisical manner and only 59% of required afforestation was done, amply demonstrates that in the name of development schemes environment has already been given a backseat. It also means that there is hardly any cooperation between the different wings of Government, often working at cross-purposes.

Moreover the primary focus for conservation, as enshrined in the NFAP, remains financial. It does not incorporate any meaningful role to the community based societal processes to ensure that the power remains centralized in the hands of bureaucrats. The NFAP envisages an investment of Rs. 3,91,4479.89 million on Improve Forest Productivity Programme and Rs. 44,05,605.45 million on Expanded Forest Area Programme.

The NFAP is another living testimony that the government has failed miserably to learn any lesson from its all-round failure on the forestry front, on the one hand, and more importantly, is determined to continue its half baked projects with heavy foreign loan component, on the other, which will only accelerate the debt burden of the country.

*Dr. Arun Kumar Singh*

.....

## **ENVIRONMENTAL GROUPS CHALLENGE US GOVERNMENT RECOMMENDATIONS ON FORESTRY PRODUCT LIBERALISATION**

The United States and several other WTO Members have proposed an agreement to accelerate tariff reductions on forest products at the Ministerial Conference in Seattle. The US originally proposed this initiative as part of a broader effort to accelerate

In spite of the forestry study's flaws, in carrying out its review of potential economic and environmental impacts in advance of concluding the agreement, the US government has taken a significant step forward to improve trade policy.

trade liberalization in several sectors in the Asia Pacific Economic Cooperation (APEC) forum. Discussions continue in APEC on the removal of non-tariff measures (NTMs).

US environmental groups oppose the forest

product initiative, arguing that trade in forest products will intensify economic pressures for overharvesting as long as the framework of laws and policies to ensure forest conservation and sustainable management remains weak. Of the world's remaining intact forests ("frontier forests") at risk, nearly three-quarters are threatened by logging. While international trade accounts for only 6-25 percent (depending on the product category) of total forest product production, in some regions over half of production is exported, including countries such as Malaysia and Indonesia whose forests are rich in biodiversity and inhabited by diverse local cultures traditionally dependent on the forests for survival.

After vigorous advocacy from environmental groups, the US government agreed to carry out a review of the environmental impacts of its proposal. The government published a request for public comments in June. On November 2, an interagency team – headed by the United States Trade Representative and the Council on Environmental Quality – released its resulting report, now available on the USTR web site at [www.ustr.gov/releases/1999/11/](http://www.ustr.gov/releases/1999/11/) (see also box on page 6, ed.).

The report predicts complex and mixed effects on the extent and source of production as well as the composition of product

types in specific countries, regions and localities. At the same time, it acknowledges a high degree of uncertainty given the difficulty of separating out the effect of tariff reductions from the many other relevant variables. Yet the study concludes that the impact on aggregate global levels of forest product production, consumption would be minimal.

The study predicts significant impacts on geographic trade patterns. In certain countries, the study predicts measurable increases compared to the baseline, including Malaysia and Indonesia. Meanwhile, decreases are projected in other countries such as Mexico and Russia.

The USG study concludes that a separate domestic policy response to the tariff reduction initiative is not warranted in light of the small projected impact on US harvesting. One "valuable insight," however, is the importance of improving baseline data in order to make future analysis more useful and increase understanding of relationship between forest product trade and sustainable forest management. This conclusion is consistent with environmental groups' call for a retrospective assessment of the environmental impacts of trade before commencing further liberalization. Yet the US study concludes that trade liberalization can go

forward in the absence of such data. A second policy conclusion is that bilateral, regional and multilateral cooperation are important, including "continued technical assistance to help countries develop environmentally sound national forest management policies and practices." Yet the study does not assess whether current assistance and other forms of cooperation are adequate.

A forthcoming report prepared by the World Resources Institute (WRI) and the Center for International Environmental Law (CIEL) takes a different approach. That report supports some (but not all) of the US study's findings about projected impacts. For instance, both studies find that tariff reduction could cause significant increases in harvesting in important forested countries such as Indonesia and Malaysia.

The WRI/CIEL report, however, emphasizes that trade liberalization should be accompanied by international cooperation to strengthen frameworks for forest protection. Unlike the US study, their report reviews the adequacy of these frameworks in key timber exporting countries, and finds them lacking in many respects. They also note that cooperation under international instruments such as the Convention on International Trade in Endangered Species

(CITES) falls short of what can and should be done. More generally, a recent IUCN study concludes that the current international forest regime fails to create the conditions for “conservation, sustainable management and sustainable development of all types of forests.”

In this context, the CIEL/WRI report argues that the US must promote parallel progress on forest protection with the same vigor that it promotes forest product liberalization. Such efforts are now sorely lacking. One example is the government’s recent refusal to propose a listing of big-leaf mahogany under CITES, despite the fact that many scientists believe the species to be exploited un- sustainably and the US is the world’s largest importer of its wood. Many NGOs also argue that the US effort focused on an excessively

narrow slice of the overall trade liberalization agenda that affects forests. They call for analysis of the tariff reduction effort in the broader context of the NTM discussions in APEC and the existing WTO disciplines that apply to NTMs in the forest product sector.

In carrying out its review of potential economic and environmental impacts in advance of concluding the agreement, the USG has taken a significant step forward to improve trade policy. This is an important response to the call from environmental groups around the world for governments to assess the environmental impacts of past and proposed trade agreements. Yet flaws in the procedure and its results highlight the need for further improvements. Too much energy was spent on arguing over

whether to do the study; the public had only a brief period to comment; and there was little public debate over the scoping of the study.

As mentioned, baseline data on forest status and threats were lacking, as were data on the adequacy of forest protection measures needed to balance the economic pressure for overharvesting to which trade contributes. Critics argue that the policy recommendations are inadequate in light of the global crisis confronting forests. The US government is currently considering the establishment of guidelines for assessment procedures of trade agreements likely to have significant environmental impacts, which could be an even bigger step forward if built on the experience with the forest product tariff review.

**David Downes**

**(Available on request from [nigels@wri.org](mailto:nigels@wri.org))**



## **RESTRUCTURING OF POWER SECTOR : ROLE OF WORLD BANK**

---

*"The Government of India, with World Bank assistance, has been encouraging the states to undertake in-depth power sector reforms. This involves distancing the state government from operation of the power sector, establishing an independent regulatory framework for the sector, progressively reducing subsidies and restoring the creditworthiness of the utilities through financial restructuring and cost-recovery based tariffs, and divesting existing distribution assets to private operators.*

*The first state to engage into this reform process was Orissa, which has nearly completed its reform agenda. The states of Haryana and Andhra Pradesh have also embarked upon similar reform programmes. Haryana has completed the restructuring of its power sector, established the Haryana Electricity Regulatory Commission, and is planning to privatize one distribution zone in 2000 and the second zone by 2002. Andhra Pradesh has made its reform*

legislation effective, created new companies that have taken over the business of APSEB, and established a regulatory commission. The State of Uttar Pradesh has initiated a similar reform agenda by approving a comprehensive reform legislation and establishing its regulatory commission.

The financial weakness of the SEBs has also been one of the major stumbling blocks in achieving financial closure of Independent Power Producers (IPPs). Despite government steps to introduce private sector investment into power generation, as of July 1999, only six independent power plants have come into operation, totalling just over 2000 megawatts - far below what is needed to keep pace with industrial growth." - **Sector Briefs - The World Bank Group**

"IBRD - \$60 million. This adaptable programme loan will support the first phase of the Haryana Power Sector Restructuring and Development Programme by establishing a new legal, regulatory, and institutional framework and initiating privatization of power distribution." - **The World Bank Annual Reprt 1998**

The recent Strike by the workers of U.P. Electricity Board may not have succeeded in its stated objectives but it has certainly been successful in bringing the issue of dismantling one of the pillars of India's core sector which were once cherished as 'Temples of India' to the public fora.

World Bank has spearheaded this process dismantling along with the official agencies of its masters U.S.A. & U.K. A three volume report - "India: Long Term Issues Of The Power Sector" (Report No.: 9786-IN) was prepared by the Energy Operations Division of World Bank way back in 1991 itself. This report was drawn from the studies done by the consultants financed by the Overseas Development Administration (ODA), U.K. and U.S. Agency for International Development (USAID).

The report in its findings states that "Commercialisation of SEBs emerges as pre requisite to improve sector efficiency". Ever

since then the World Bank is guiding GOI using all its political, manipulative and financial power. First it was Orissa to "overhaul of its power sector" in 1995 with the World Bank loans. During 1996 the Bank provided credit of US\$350 millions "to support state programmes" in same lines. "A new lending instrument, the Adaptable Program Loan (APL) has since been developed and is the cornerstone of Bank's current approach to supporting India's state power reforms." In 1998 Haryana recieved US\$60millions, in 1999 A.P. recieved US\$210 millions credit under this scheme. The approval of US\$150millions for U.P. was slated for 23.02.2000.

But the representatives of both the Centre and the State Governments have shamelessly tried to hide following crucial facts:

1. 'The government of India has been encouraging the states to undertake in-depth power sector reforms' 'with World Bank assistance'- which means techni-

cal advice and credit.

2. The main objective of the World Bank's Power sector approach is to pave way for profit making sector involvement.

3. The approval of the credit by the World Bank is dependent upon accepting the prescriptions made in the name of 'technical assistance' and agreeing to follow their guidelines in terms of the procedures for contracting and procurement of the equipment.

4. Who will face the brunt of the Thousands of Crores of Rupees Credit taken to make these units viable for profit making companies- the companies or the government or the consumer. If the liabilities of this debt service is passed on to the consumer, as is the preferred practice in the market, what will be the cost of electricity for the ultimate consumer.

We are reproducing the PROJECT INFORMATION DOCUMENT for your perusal so that you can make up your own opinion. You can seek other relevant documents by writing to us.

## PROJECT INFORMATION DOCUMENT

### 1. Country and Sector Background

#### Main sector issues

UPSEB is financially bankrupt, and unable to meet its operating expenditure and working capital needs. In addition, UPSEB also faces a severe cash flow problem, primarily due to its inability to efficiently collect its dues from consumers, and is unable to promptly pay its dues to the suppliers and its debt service obligations to commercial/institutional lenders. Deterioration in UPSEB's financial situation, among other reasons, is largely due to abnormally high distribution losses and due to low tariffs charged to agricultural and domestic consumers. Given the deterioration in its fiscal situation, it is no longer possible for the Government to fund UPSEB's losses and support the development of the power sector. Substantial expansion of supply through private power producers is also not possible without sufficiently restoring the creditworthiness of the energy off-taker.

<b>Project Name</b>	: India-Uttar Pradesh Power Sector Restructuring Project
<b>Region</b>	: South Asia
<b>Sector</b>	: Energy-Distribution & Transmission
<b>Project ID</b>	: P035172
<b>Borrower(s)</b>	: GOVERNMENT OF INDIA
<b>Implementing Agency</b>	: Uttar Pradesh State Electricity Board (UPSEB), Shakti Bhawan 14 Ashok Marg, Lucknow Uttar Pradesh, India 226 001 Contact Person: G.P. Singh, Chairman Tel. 91-522-226736 Fax. 91-522-231169
<b>Environment Category</b>	: B
<b>Date PID Prepared</b>	: October 1, 1999
<b>Project Appraisal Date</b>	: November 10, 1999
<b>Projected Board Date</b>	: February 23, 2000

#### Causes

The root cause of this situation is the pervasive politicization of most decisions affecting UPSEB's operations and expansion, and the resulting lack of a commercial orientation in its functioning. This has led to the evolution of an organizational culture that does not promote accountability, nor does it provide adequate incentives to the managers and the staff to perform efficiently. The State has traditionally regarded UPSEB as an extension of the government and has exerted influence over its tariff, operational, personnel, and investment decisions to further its political objectives. Political imperatives have affected adjustment of tariffs to cover UPSEB's costs. In addition, it had to undertake or continue unremunerative activities under the instructions of the State government without proper compensation.

#### Challenge and Government Strategy

Eliminating the power deficit and meeting this potential demand - through supply and end-use efficiency improvements - require additional capacities of about 14,500 MW in the next about ten years. This translates into an investment of about US\$15 billion in generation alone. Additional investments of about US\$7 to 8 billion would be required to rehabilitate and augment UPSEB's transmission and distribution system. This level of investment is clearly not financible in the near term, if UPSEB

continues doing business as usual. It is clear that, to attract IPPs, and to be able to finance the required increase in supply and in the T&D infrastructure, the sector has to become creditworthy in a reasonable timeframe.

The long-term goal of the Uttar Pradesh government is to have efficient commercially viable electricity utilities providing good quality electricity to all categories of consumers at economic costs; attract private investment for all new generation projects; and phase out government subsidies to the sector so that it ceases to be a burden on the state's budget. The Uttar Pradesh government is now convinced that the State's power requirements cannot be met without mobilization of private financial resources, the restoration of the creditworthiness of the power utilities, and the establishment of a proper enabling environment, including a regulatory framework, which would insulate the power sector from external influences, balance the interests of various stake holders and provide appropriate incentives for efficiency.

## **2 Objectives**

The development objective of the Uttar Pradesh Power Sector Restructuring Project is to initiate the reform process by establishing the new legal, regulatory, institutional framework, and industry structure (including the creation of an independent regulatory commission; creation of the new power corporations, and the preparatory work for privatization of the distribution business), to build support for power sector reforms among key stakeholders and removing the most critical bottlenecks of the power system to help improve the supply and establish the benefits that could be expected from the power sector reforms.

## **3. Rationale for Bank's Involvement**

Since 1993, the Bank has been extensively involved in a policy dialogue with the Central and State Governments to promote systemic power sector reforms at the state level. While supporting the power sector reform in Orissa, Haryana and Andhra Pradesh, the Bank has gained a significant understanding and experience of these reforms in the Indian context. Orissa and Haryana are in touch with IFC for providing financing to the private distribution companies. The Bank has also offered to the Central government use of its guarantee instrument for IPPs in reforming states. UP will, therefore, benefit to a large extent from the synergy between a variety of instruments and approaches. The Bank Group is particularly well positioned to respond to the opportunity and challenges posed by UP today, by: (a) providing and catalyzing the critical long term capital needed to support the much needed growth of UP's power sector until the reforms progress enough to attract a sufficient volume of private capital and commercial financing; (b) using the leverage of its lending volume and its advisory capability to further and accelerate the reform process and create an enabling environment for private investment; and (c) providing the lessons of its global experience in power sector reforms to help UP deal with the issues of design, implementation and adaptation of its reform program.

## **4. Description**

The project will finance investments in:

- (a) Transmission system rehabilitation and augmentation
- (b) Sub-transmission and Distribution system augmentation

- (c) Metering System improvement
- (d) Technical Assistance

## **5. Financing**

	Total ( US\$m)
Government & others	130
IBRD	150
IDA	-
Total Project Cost	280

## **6. Implementation**

The project would be implemented by the Uttar Pradesh government and the investments implemented initially by UPSEB but later by its successors which are expected to come into existence following the effectiveness of the Reform Act. The broader reform program would be implemented by the Uttar Pradesh government, UPSEB and later its successor companies UP POWER, the generating companies and private distribution companies.

## **7. Sustainability**

The proposed project will facilitate the implementation of the reform program by: (i) demonstrating the Bank's support at an early stage of the reform process when politically difficult decisions are being taken, (ii) adapting further support from the Bank to actual progress in reform implementation and financing requirements, and (iii) assisting UP in carrying out its financial restructuring.

## **8. Lessons learned from past operations in the country/sector**

During the 1980s and early 1990s, the Bank Group followed a three-pronged strategy in power: (a) it provided extensive support to Central Government owned agencies; (b) it financed a number of SEBs; and (c) it financed existing private power utilities and encouraged the Government to lower entry barriers for new investors. The success of this strategy was uneven. In addition the Bank's experience in general and more particularly its experience in India, suggest that the strategy of state led sectoral expansion was no longer appropriate, in the Indian context. These lessons led to the design of the current state power sector reform program, including the promotion of privatization of distribution and independent regulation. Based on the lessons of the past, the Bank decided in 1993 to lend its financial support to only those states that demonstrate a commitment to implement a comprehensive reform of their power sector. The first state to move along these lines was Orissa, followed by Haryana and Andhra Pradesh. In Orissa the SEB has been functionally separated into generation, transmission, and distribution. The entire distribution business of GRIDCO has been divided into four companies, all of which were privatized successfully in 1999. The Regulatory Commission has been established and is now up and running, has issued licenses to the new companies, issued tariff orders after public hearing and in a transparent manner, held public consultation on future tariff approaches to be adopted, and earned the acceptance of various stake holders. In addition, Orissa has disinvested 49% of its equity in OPGC (a state owned thermal generating company) through a competitive process.

Haryana has also launched its reform program. A Regulatory Commission

has been established, HSEB replaced by a Generation company, a Transmission company, and two Distribution companies- one of which is preparing itself for privatization in the next few months. Andhra Pradesh is the third state to implement power sector reforms. APSEB has been replaced by a Generation company and a T&D company, and a Regulatory Commission has been established.

The reform program in UP and the design of the proposed project have benefited extensively from the earlier state power restructuring operations. A key lesson from the other restructuring projects has been that the financial condition of the utilities in the first few years after restructuring continues to worsen in the absence of adequate financing support from the government. To minimize the impact on state finances, it is necessary for the SEB to negotiate a meaningful financial restructuring plan.

#### **9. Program of Targeted Intervention (PTI)**

Given the multiple constraints to development and poverty reduction in the state, a wide ranging and multi-sectoral approach is being adopted by the Bank to assist the state government in dealing both with the short term issues of current fiscal crisis and the long term problems of slow growth, and poor education and health standards. The project is part of this comprehensive, targeted poverty reduction program which includes tax, expenditure, governance, and sectoral reforms.

#### **10. Environment Aspects (including any public consultation)**

Issues : Given the nature of major project components listed above, there are no major environmental issues identified or suspected in this project. The project supports investments only in transmission and distribution systems and is expected to have a positive environmental impact through improved efficiency in supply and demand side management. As part of the environmental assessment, the Board will investigate the use of PCBs in old transformers and capacitors. The design of lines and substations would incorporate safety features, and their route/location will be defined to minimize any adverse environmental impact.

#### **11. Contact Point:**

Team Leader : Mohinder P. Gulati  
The World Bank  
1818 H Street, NW, Washington D.C. 20433  
Telephone: 202 473-3211, Fax: 202 522-2427

**Note:** This is information on an evolving project. Certain components may not be necessarily included in the final project. Because this is a Category B project, it may be required that the borrower prepare a separate EA report. If a separate EA report is required, once it is prepared and submitted to the Bank, in accordance with OP 4.01, Environmental Assessment, it will be submitted to the InfoShop as an annex to the Project Information Document (PID).

If no separate EA report is required, the PID will not contain an EA annex; the findings and recommendations of the EA will be reflected in the body of the PID.

# WORLD BANK RECIPES FOR FORCING REFORMS IN STATE OWNED ENTERPRISES

---

## Recipe 1

Many macro-economic reforms, do not directly threaten the interest of state owned enterprise (SOE) supporters but nonetheless help to generate pressure and support for future SOE reform, thus making reform more desirable. To help make SOE reform more politically desirable policy makers could :

- ☞ **Reduce Fiscal Deficits:** Fiscal and monetary reforms that bring revenues and expenditures into line increase pressure for SOE reform by making the burden on SOE deficits explicit.
- ☞ **Ease Trade Restrictions:** Liberalizing trade restrictions gives exporters a stronger position in the economy, and exporters can become an important constituency for SOE reform, demanding more efficient provision of goods and services that SOEs supply.
- ☞ **Remove Barriers to Entry:** Removing barriers to entry increases the number of voices calling for SOE reform. New entrants who must rely on state-owned enterprises services or compete with subsidized SOE products help enlarge the constituency for reform.
- ☞ **Initiate Financial Sector Reform:** Governments not ready to reform SOEs may still be prepared to develop their financial system by improving supervisory and regulatory capacity, reducing directed credit and direct government control over financial intermediaries, and easing some interest rate controls.

## Recipe 2

Similarly, governments can make SOE reform more feasible by reducing the opposition to reform by workers and others dependent on state-owned enterprises. Policy makers could do the following to help:

- ☞ **Eliminate Obstacles to Private Job Creation:** One reason state-owned enterprise workers typically oppose reform is that while overstaffing makes layoffs likely, appealing alternative employment is often lacking. Policy makers can thus ease the way of SOE reform by improving private employment opportunities. Steps include eliminating interest rate subsidies (these encourage employers to substitute capital for labour) and complex employment regulations (which have been shown to inhibit private job growth).
- ☞ **Uncouple SOE Jobs and Social Service:** State workers who receive many goods and social services through their jobs are especially fearful of being fired. In most transition economies. For example, state firms traditionally provided housing, health care, transport, educational assistance, and other benefits. Creating alternatives to enterprise benefits, such as a commercial housing market or public health care, enables SOEs to stop providing these services and offer offsetting higher pay instead. This gives workers greater mobility and reduces their resistance to reforms that may threaten their jobs.

### Recipe 3

Finally, to enhance their credibility, governments can take actions:

- ☞ **Improve Their Reputation:** By announcing reform programs, such as the macro-economic reforms mentioned above, in advance and adhering to the program supporters.
- ☞ **Establish Domestic and International Constraints:** Enacting and adhering to constitutional provisions guaranteeing the right to property can help reassure investors that the government will honour its commitments. Trade treaties and multilateral agreements raise the cost of reversing future SOE reforms and help enhance credibility.

## JUDGE FOR YOURSELF

On Whose Prompting

***Our Government is Action,***

***Our Government is Speaking,***

In Case of State-Owned Enterprise Like  
State Electricity Boards and Indian Airlines etc.

---

**BOOK POST**

**For Limited Circulation Only**

**Our Address:**

**APPEAL**

F-93, 1st Floor

Katwaria Sarai

New Delhi 110 016

**Telefax : 6968121 & 6858940**

**E-mail : [peaceact@vsnl.com](mailto:peaceact@vsnl.com)**

**To :**

---

---

---

---

---

.....

**APPEAL**

**Action Programme for People's Economics and Allied Literacy**