TNCs as Aid Agencies?

Enron and the Dabhol Power Plant

Subodh Wagle

In an era of structural adjustment, liberalization and privatization, multinationals are now claiming that, through their business ventures and capital, they rather than bilateral and multilateral aid programmes are the ones providing effective development assistance and relief to the developing world, and that therefore public aid money should be provided as loans to these "pioneering" companies instead. The attempt by TNCs, long viewed as appropriators of public wealth, to recast themselves as public benefactors and as "development agencies" is well illustrated in the arguments used by Enron, the US energy multinational, to justify its involvement in the controversial Dabhol power plant in India. Far from "bringing development", the TNCs are standard bearers for a new colonialism.

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Development in many Third World countries has failed, claim many TNC representatives, because of the active role of the state. They contrast the inefficiencies, corruption and wastage resulting from state involvement in development projects with their own efficiency, productivity and technological sophistication. They point to additional benefits they confer on host countries — improved infrastructure, sophisticated industry and a strong and vigorous economy. And they assert that, in future, official development aid should be diverted from the state to the private sector.

This was the core argument presented by Linda Powers, the Vice President of Global Finance for Enron Development Corporation, a Texas-based gas company and one of the world's largest handlers of Liquefied Natural Gas (LNG), in her testimony at the US House of Representatives in January 1995 before the Committee on Appropriations, which was meeting to evaluate the US international aid policies. Powers told the Committee:

> "Private parties, like our company and others, are now able to develop, construct, own and operate private infrastructure projects in these countries. In the process of doing so, private parties are able to achieve the two things which US foreign assistance efforts are long been trying to achieve:
> (1) the projects are serving as action-forcing events that are getting the host countries to finally implement the legal and policy changes long urged upon them; and
> (2) as an adjunct to these projects, to win local support, the private developers are installing substantial amounts of medical facilities, schools and the like to alleviate current problems in these countries."[1]

To support these claims, Powers referred to Enron's controversial Dabhol power plant in Maharashtra, India. A closer look at Enron's involvement with the project, however, belies her claims.

Enron's Dabhol Power Plant

Enron's involvement in Dahbol dates back to June 1992 when the electricity board of Maharashtra, India's leading industrialized state, initiated plans to build a 2015-megawatt gas-fired thermal power station at Dabhol in the coastal district of

Ratnagiri, some 160 kilometres south of the state's capital, Bombay, and one of the most fertile areas in the state. The plant was to be the first privately-financed power project in India, and the state invited the Dabhol Power Company, a consortium consisting of Enron and two other US corporations, to take on the project. The plant would be owned and operated by the consortium which would also finance and build it at an estimated capital cost of $2.8 billion.

Eighty per cent of the equity in the consortium is held by Enron which will manage the plant. The rest of the equity is equally divided between General Electric Capital Corporation, a subsidiary of General Electric, one of the top global manufacturers of electricity generating equipment, and Bechtel, the largest construction firm in the United States. The gas for the Dabhol power plant would be imported from Enron's operations in Oman.

Commercial Education?

In her testimony to the Committee, Powers first highlighted Enron's role in bringing about the "growth and development of recipient countries . . . not only by addition of physical assets to the country, but, equally important, [by] the creation of commercial infrastructure".[2] She took this infrastructure to mean "the policies, laws, and practices that are the basic tools of a market economy".[3] The Dabhol power project, she suggested, had been a fortunate opportunity for government, financial and other officials in India to learn their profession:

> "Working through this process [the evolution of Enron's Dabhol project] has given the Indian authorities a real and concrete understanding of the kinds of legal and policy changes needed in India."[4]

"Multinationals claim that they are assisting the developing world through their business ventures so effectively and to such an extent that aid programmes are no longer needed."

Judging by Enron's behaviour, however, it would appear that the "understanding" which Powers hoped the project would inculcate into India's officials consisted largely of how to do business Enron's way.

Certainly, if the project was intended as a public educational process, it is hard to explain the secrecy that surrounded it from its inception. The initial memorandum of understanding was signed just 24 hours after Enron made contact with officials in India.[5] After the power purchase and other agreements had been signed in December 1993, basic information was still restricted to a few officials and denied to elected peoples' representatives and consumer organizations when they requested it.[6] A chief engineer at MSEB claimed the power purchase agreement was a "confidential document" while a chief engineer of the consortium said that it was a "sensitive" agreement, despite the lack of competitors.[7] Involvement by government officials was kept to a minimum while the final agreements between the Maharashtra State Electricity Board and the Dahbol Power Company were drafted by Enron lawyers.

Powers went on to claim that the Indian banks had gained "a real and concrete understanding of sound project lending practices"[8] as a result of Dabhol:

> "Five lending Indian banks are playing a major role in the total financing package for our power plant project. They have not previously done project financing, but through the financing process on our project, they have developed a thorough understanding of project finance, international lending practices, project credit evaluation and security requirements."[9]

Here again, if the aim was to "teach" Indian bankers how to raise and lend money, the main lesson that Enron imparted would appear to have been how to do so to suit foreign investors. Indian banking practices may differ in some respects from those in the US, but financial staff are not ignorant of project financing. The Industrial Development Bank of India (IDBI), the leading bank financing the rupee part of the Dabhol project, had assets of nearly Rs.310 billion ($9.7 billion) in 1992-3. According to IDBI statistics, the bank provided Rs.750 billion ($24 billion) to Indian industry up to 1995.[10]

Given the long experience of Indian banks with project financing within India, Powers's assertion as to their ignorance of such financing suggests either racism or a concern to school the banks in financing projects on terms favourable to foreign investors.

Objections raised by Indian lending banks and regulatory agencies such as the Foreign Investment Promotion Board and the Central Electricity Authority to financial, technical and procedural details of the power purchase and other agreements were overruled by vested interests using political pressure.[11]

For instance, the Indian Foreign Investment Promotion Board initially laid down a condition that 70 per cent of equity for the plant should be foreign; this has been reduced to 60 per cent, the rest being raised in India.[12] In addition, Enron's portion of the equity will be financed by loans from a syndicate of international banks, not from Enron's own capital.[13] The Board also requested Enron to halve the size of the project so that the outflow of India's foreign exchange could be reduced.[14]

Powers, however, claimed that "our company spent an enormous amount of its own money — approximately $20 million — on this education" of Indian banks.[15] In fact, there was no such expenditure on the "education" of Indian officials. Many organizations and media representatives were outraged to learn of Powers's assertion and accused Enron of spending the money on bribes and corruption. Enron rejected the accusations, stating instead that Powers's claim was incorrect.

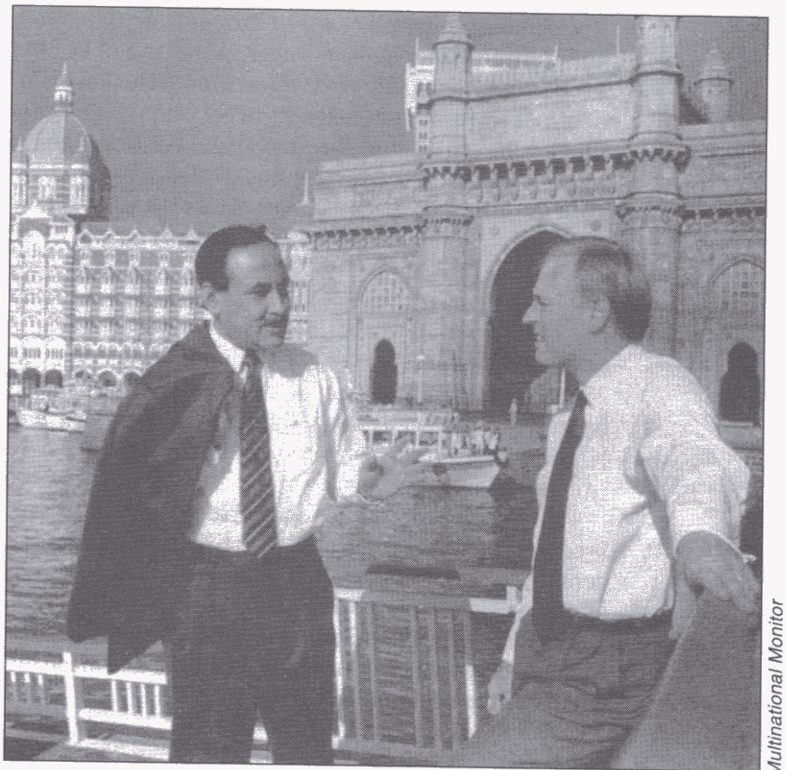
But the fact that the Dabhol project was approved without calling for formal tenders, that the capital costs are much higher than those elsewhere, that the price and conditions of sale of generated electricity are inequitably in favour of Enron and against MSEB and its consumers, and that the project has been shrouded in secrecy confirm rumours of high level corruption.

A senior Maharashtra politician, Mrinal Gore, wrote to the state's Chief Minister on 22 November 1995 asserting that "a strong and evil chain of politicians, criminals and corrupt government officials" had been instrumental in sanctioning the project against the wishes of the people.

Providing Immediate Relief?

Enron's second development function, according to Powers, was in "alleviating current problems" by making "medical, education, employment and other benefits" available.

> "Our capital expenditure budget for the project includes $24.5 million for a fifty-bed hospital, a primary school, a vocational school, drinking water pipelines for the surrounding villages and road improvements. The budget also include an additional $75 million for port improvements (dredging, new jetties, etc) that will be available for general public use. Finally, the project includes employment for several hundred persons, both at plant and elsewhere, with an annual payroll of $5 million throughout the life of the project. We provide extensive training for the employees, and these are high value jobs relative to the local economy."[16]



Multinational Monitor

Ajit Nimbalker (left), chair of the Maharashtra State Electricity Board, and Joe Sutton (right), managing director of Enron Development Corporation, one of Enron's five subsidiaries building the Dabhol plant.

Enron's claim to be a public welfare agency, however, rests largely on creative accounting and sleight of hand. Many of the "improvements" that Powers promises will be undertaken for commercial, not public welfare, reasons: the upgrading of local roads, for example, is largely to allow the transport of heavy equipment. The 70-kilometre water pipeline drawing water from a reservoir built by the Maharashtra state government will primarily supply fresh water for the power plant and the domestic needs of Enron's staff. Additional "community connections" might be provided for nearby hamlets.

Moreover, the $24.5 million "welfare" budget also has to pay for the land on which the plant will be built (at least 700 hectares of productive land, not including land for an airstrip, helipad, roads and other infrastructure), fuel facilities, and the resettlement and rehabilitation of some 600 people displaced by the project.[17]

Once these have been paid for, the small amount left over for a hospital and two schools for villagers are crumbs to silence potential troublemakers. Indeed, Powers admitted as much in her testimony, acknowledging that the "immediate, tangible benefits", such as "new drinking water supplies, etc", can be used as "cover against domestic criticisms and resistance".[18]

The public benefits from the $75 million port improvements are also dubious. The original plan was to build a jetty to unload equipment and fuel in a coastal estuary renown for its productive fishing, to dredge a channel in the estuary to accommodate large cargo ships and tankers, and to discharge waste into the estuary. The Ministry of Environment and Forests requested Enron to shift the location of the jetty and discharge pipes to the open sea, which Enron did whilst complaining about the extra cost. Fishing in the coastal waters will now be disrupted. Moreover, far from the port facilities being "available for general public use", the 1,000 metre fuel jetty will remain the exclusive property of Enron. Although a 150-metre jetty used in the construction of the plant will be handed over to the government, the handover will only take place once the plant is completed — at which point it will be obsolete for Enron and useless for the government.

Powers's claims that the project will generate employment also deserve scrutiny. Far from providing jobs "for several hundred persons", the Dabhol power project will provide employment for only 93 people in its first phase.[19] Most of these employees will need to be highly-qualified and will probably come from the major cities in India, if not abroad. The few local people who do find direct employment in the project will doubtless end up with low-income jobs of peons, gardeners and janitors. In addition, the existing local economy is likely to be highly disrupted by the power plant, not only because of the influx of construction workers but also because of the loss of farm land and the pollution of fishing waters.

Even though $5 million has been alloted for wages, it will be the customers of the Maharashtra State Electricity Board (MSEB) paying them rather than Enron. It is uncertain how much of the payroll will go to foreign employees and consultants from subsidiaries and sister companies of Enron, Bechtel and General Electric and how much will remain with local people. These employment costs are minor compared to the revenue Enron expects to collect each year from MSEB, estimated at some $400 million in 1997, rising to $800 million in the year 2017.

Further, all the expenditure Powers refers to is accounted for in the final balance sheet as project costs paid by Enron but which Indian taxpayers will have to pay for at approximately 33 per cent per annum interest.

Thus, Enron's claim to be "footing the bills for development assistance and producing more visible results" has little basis in reality.

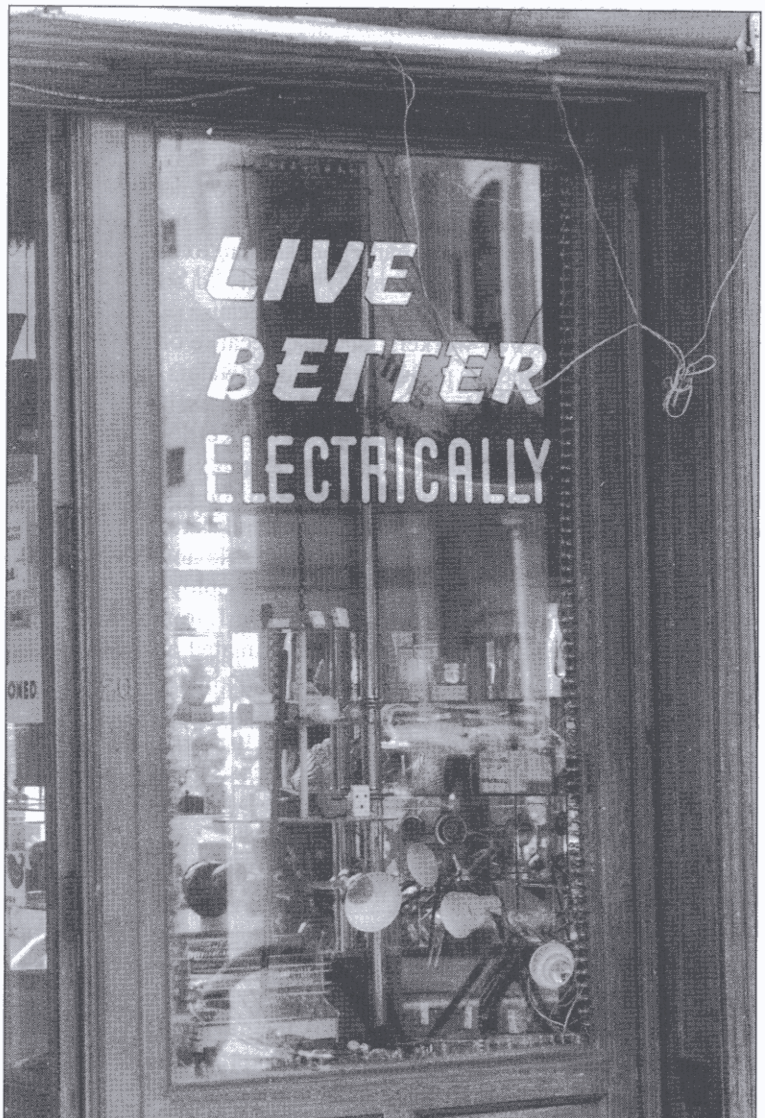
Instilling Competition?

Powers attempted to project Enron as a protector of the market economy, praising developing countries for accepting "intense competition"[20] and recommending "transparency and predictability" in regulatory reforms.[21]

Enron's own conduct, however, in the case of Dabhol was far from competitive or transparent. The key decision-makers in the state and central governments in India allotted the contract to the Dabhol Power Corporation without any external review and without competitive tendering from other companies. Moreover, the power purchase agreement for the project requires the MSEB to buy all the power Dabhol generates, even if this is surplus to demand, thereby forcing MSEB to close down part of its existing generating capacity. Indeed, Enron's estimated rate of return on its Dabhol investment, up to 28 per cent internal rate of return, is only possible because the project has been shielded from competition, both in the tendering process and in the sale of power from the plant.

Powers' plea for transparency in regulatory processes is equally hypocritical. Enron tried to keep the terms and conditions of the power purchase agreement secret, even after it had been signed. It avoided public scrutiny of the agreement until opposition political parties won the Maharashtra state elections in March 1995 and made the details of the deal public.

Much as the people of Maharashtra might wish to "live better electrically", the electricity from the Dabhol power plant is intended for industry rather than domestic consumers.



Mark Edwards/Still Pictures

Innocent Intentions?

Despite the hard-nosed approach of Enron, Powers took great pains throughout her testimony to paint multinationals as "concerned" businesses with innocent intentions:

> "When a firm like Enron . . . goes into a foreign country to undertake a project, just what do we do? In simplest terms, we identify the needs, select a suitable site, design an appropriately-sized facility, work out fuel supplies, develop relations with local and central government officials, negotiate power sales contracts, finance and construct the facility, and operate and maintain it over its useful life."[22]

According to the World Bank, however, Dahbol is far from being appropriately-sized: on the contrary, the Bank argues that there is no need for such a large base-load (2015MW) project in Maharashtra. (Base loads are the minimum levels of electricity normally consumed, peak loads are the maximum.) The Bank also maintained that the project would not be "economically viable" for the MSEB, which, as a consequence, would be forced to replace lower cost coal power with "much higher cost LNG power".[23] The national government had chosen nine sites for power plants in India, and Dabhol was not one of them. In effect, the "needs" identified by the Dahbol Development Corporation were not those of India or Maharashtra for electricity, but those of Enron to sell its gas, General Electric its electricity generating equipment, and Bechtel its construction expertise. Powers went on to state that multinationals:

> "undertake enormous risks and costs, get compensated for these risks and costs, and still deliver the services more reliably and cheaply than the existing projects in these countries."[24]

In fact, the Dahbol project is virtually risk free for Enron because MSEB has had to take out comprehensive and expensive insurance cover (ultimately paid for by Indian taxpayers and electricity consumers). Indian financial institutions are providing much of the finance, and a capital depreciation rate of 7.5 per cent has been permitted instead of the usual 3.5 per cent.

Enron also secured counter guarantees from the government of India for MSEB payments to the Dabhol Power Corporation (even though the MSEB, the state government of Maharashtra and the national government subsequently disowned responsibility for doing so) and from the state government of Maharashtra. The guarantees were backed by all the assets of these governments including the Parliament House and Presidential Palace. Assurances have also been given that the project will not be nationalized.

These guarantees are one-sided: the MSEB, the state government of Maharashtra and the national government have no protection against any disasters or lapses on the part of Enron or its proxies. (Union Carbide's debacle at Bhopal comes to mind.) Enron can pull out of the project and disinvest its equity whenever it wishes. In addition, no limit has been put on Enron's capital expenditure, the amount on which it obtains its rate of return.

Whilst the risks of Dabhol have been assumed by the public, however, the profits will be private. Enron has secured an internal rate of return (IRR) of 28 per cent on "claimed equity" rather than the more usual 17 to 21 per cent for such a risk-free proposition. A 28 per cent IRR is approximately equivalent to an annual 33 per cent return on investment — the interest rate Indian taxpayers will have to pay Enron for bringing in its capital. Some analysts suggest that the project cost has been inflated by about 20 to 30 per cent so as to raise the IRR value on the "real equity".[25]

Rainer Hörig

A local campaign meeting to stop Enron's Dabhol power plant.

Cheap Electricity?

In the case of the Dabhol plant, Enron will not deliver electricity more cheaply than existing public projects — rather the opposite. The levelized price of electricity (the cost of electricity if capital and operational costs are distributed over a plant's operational life) from India's newest power plant, a gas-based plant at Kawas in the state of Gujarat, is about Rs2.4 ($0.08) per kilowatt-hour, whereas the levelized price of electricity from Dabhol will range from Rs3.6 ($0.12) to Rs4.2 ($0.14) per kilowatt-hour.[26] The average price of electricity in Maharashtra without the Dabhol plant would be about Rs2.11 ($0.068) per kilowatt-hour in 1997.

Powers also relied on the argument that consumers will benefit from an end to electricity price subsidies, a policy which Powers claimed Enron has been instrumental in effecting. In fact, the Maharashtra State Electricity Board (MSEB) does not have a price subsidy. It does have a cross-subsidy arrangement by which it charges its urban consumers, particularly commercial and industrial users, a tariff as high as Rs. 6.00 (US$0.16) per kilowatt-hour so as to offset its lower tariffs for agricultural and rural household consumers. MSEB is not losing any money because of this cross-subsidy.

No US corporation, especially one working in the oil and natural gas sector, has any right to object to cross subsidies. Cross subsidies exist in many regions of the US, but in the reverse direction — the residential sector subsidizes the industrial sector.[27] Indeed, not only the US power sector but the entire US industrial infrastructure is built on heavy subsidies from the national government. A large part of the enormous US defence expenditure amounts to generous indirect subsidies to US oil and gas companies. In India, Enron benefited from tax and duty exemptions and the guaranteed purchase of its product and manipulated the state government so as to earn very high profits from a virtually risk-free project.

Physician, Heal Thyself

Powers's entire testimony was riddled with an underlying contempt for developing countries in general and India in particular. She described all developing countries, including India, as places where "the lights don't stay on, the water isn't safe to drink, the roads are dangerous and congested, and 'phone calls are impossible to make or receive".[28] Her (not so) implicit conclusion was that multinationals will civilize these countries through their operations for which the people there should be grateful.

Imagine the outcry in the United States, however, to the suggestion that the semi-government public transport agency in Bombay, BEST, (which operates a huge fleet of buses with far better performance than many public transport undertakings in the US) should go to Los Angeles and other US cities to teach the authorities a few lessons about public transport and to "convince" the US government to implement an energy tax so as to reduce global warming and to provide jobs for people in the ghettos of Los Angeles.

Or to the suggestion that the Chief Election Commissioner of India, who has motivated around 70 per cent of the adult population in a poor and "backward" country to vote in recent elections, should manage the next US Presidential elections. He could, for instance, improve democratic participation in a country in which around half of the adult population (mostly blacks, women and the poor) do not vote because of regressive laws and deliberate tactics, such as making it difficult for certain sectors of the public to register to vote. Conservative political interests in many US states have blocked legal attempts to make registration easier; these include "motor-voter" Bills which would allow for automatic voter registration of anyone who obtains or renews a driving licence.

As a corollary to Powers's description of developing countries, the United States, Enron's home country, could be described as a nation in which "family breakdown is widespread, educational standards are abominably low, the poverty rate is one of the highest in the developed world, school kids shoot each other, babies are born addicted to crack and the crime rate is high." If Enron wants to provide development assistance, it could address these problems at home before tackling those it perceives in India.

Powers's contemptuous stance and attempts to legitimize Enron's economic operations resemble colonial justifications for imperialism such as civilizing the "barbaric natives". While aspiring to become the new messiahs of development, multinationals are taking up the "white man's burden".

Resisting New Colonialism

Since they learned about the Dabhol power plant, various urban groups and grassroots organizations of local people affected by the project have been struggling against it. From 1993 to 1995, local groups organized mass demonstrations at the project sites and nearby administrative towns to put pressure on Enron and state government agencies. Urban groups, including environmental, consumer, labour unions and political parties, lobbied in Bombay and other cities through the law courts, the media and political action.

The controversy became the main issue during elections for Maharashtra's legislative assembly in March 1995 which were won by a coalition of two right-wing parties. The coalition cancelled the project at first, but then negotiated a compromise with Enron and sanctioned the go-ahead for the Dabhol power plant in January 1996. The compromise involved some concessions from Enron in terms of the tariff and foreign exchange payments, but other critical issues (such as environmental effects, displacement and livelihood destruction) were unresolved. Left-wing political parties, labour unions and grassroots organizations have thus renewed their struggle against the power plant.

Beware Those Bringing "Gifts"

Developing countries need to scrutinize the rationales and justifications given for inviting in multinationals to the infrastructure sector. They need to ask whether, given the multi–nationals' immense economic power and frequent lack of scruples, it is possible to monitor, control and regulate them once they have gained a foothold in a country.

In the case of Enron's Dabhol power project and that of a host of other foreign private power projects set to follow it, India needs to ask: does it have the technology, policy software, expertise and, above all, public awareness and political will that are critical if private companies are to be controlled and the health of its power sector and interests of its people ensured?

If not, then India and developing countries in general should, as far as possible, pursue and augment other options and opportunities. In the field of energy, for instance, this includes trying out first of all energy efficiency and renewable energy options (and even conventional energy options) which can be employed using internal, rather than multinational, financial and technical resources. Countries should also work towards building up their knowledge base, mechanisms and institutional structures to monitor effectively and regulate the entry and operations of multinationals, if it is impossible to avoid their entry.

In particular, countries should be wary of TNC claims to portray themselves as development messiahs. Neither their record, practice nor *raison d'être* support such claims.

Notes and References

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12. Indranet, op. cit. 7, p.9, ref.20.
13. Ibid. p.9.
14. Ibid., p.11, ref 13.
15. Powers, L., op. cit. 1, p.6.
16. Ibid., p.7.
17. At present, only landowning families receive compensation for acquisition of their land. Most houses in the communities affected by the project will be left untouched to avoid pay comprehensive compensation, but as private and public land surrounding their homes is enclosed, as well as the estuary, many people will not be able to maintain their livelihoods and will eventually have to move.
18. Powers, L., op. cit. 1, p.6, original emphasis.
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24. Ibid., p.4.
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26. Sant, G., Dixit, S. and Wagle, S., "Dabhol Project PPA: Structure and Techno-Economic Implications", *Economic and Political Weekly*, XXX:24, 17 June 1995, p.1455.
27. In many regions in the US, the electricity tariff for residential consumers is higher than that for industrial consumers. Another mechanism to subsidize industrial electricity consumption is the Economic Development Rate (EDR), a low tariff offered to selected industries which threaten to move out of a particular region. The private electric utility is compensated for the EDR by the city or state government, ultimately by taxpayers.
28. Powers, L., op. cit. 1, p.4.