Geetha, thanks for the green light. We have had a productive day - got confirmation for the meetings at NSDL, ICICI, SEBI, the RBI meeting and the Amcham lunch (see schedule below). The invitees for the Amcham lunch include reps for American International Group, Arthur Anderson, Bank of America, Citibank, Dow Corning, Exxon, KPMG, Morgan Guaranty Trust Company of NY, Morgan Stanley India, Pfizer, Principal Financial Group, Proctor and Gamble, Templeton Asset Management Pvt, Wyeth Ayerst International, Enron India. It's a good mix of banks, brokers/asset managers, and a variety of real economy sectors (energy, oil, pharma, consumer products, business consulting). Should be a good group (not all the above will necessarily be able to come).

CNN does not have a person in Mumbai so Mr. Dam would have to go with CNBC, which I have touched base with and is eager to do the interview. Business Week's rep tells me she is interested in doing the interview, but can not promise a story from the interview - it would likely be on background only unless something particularly interesting came out of the interview. Would this be acceptable to you?

We are working on a program for Mrs. Dam and should be able to finalize something tomorrow. We hope to get a top woman entrepreneur in Mumbai to organize a lunch with a diverse group of people in the business/social sector. In the morning we would plan a tour of the city. Shall we send a draft schedule to you in Washington tomorrow or in Delhi (the group departs Sept 11, right)?

Below is a cost estimate.

Estimated cost for Kenneth Dam's visit to Mumbai

Hotel Rooms (ITC Maratha Shearaton)
3 single rooms for 2 nights: $ 900
1 double room for 2 nights: $ 350
(Cost includes breakfast and transport to and from the airport)

Expediting services: (overtime for FSN, taxi claim and porters)
On arrival: (Sunday) $ 31
On departure: $ 30

Overtime for the congen driver:
2 hours overtime and one way taxi claim: $ 9

Milage for vehicles: $40

Total estimate: $ 1360

Schedule

September 16
1800 Depart for Mumbai on Jet airways 9W 448

1930 Arrive Mumbai (Met by hotel car)

RON ITC Maratha Sheraton hotel, near International Airport

Monday, Sept 17

08:00 - 0900 Working breakfast at ICICI with Mr. K.V. Kamath, Chairman ICICI

0945-1030 Site visit to National Securities Depository Limited, Kamala Mills Compound (This depository was facilitated by USAID's FIRE project resulting in reduced paperwork, increased productivity and elimination of securities transfer frauds.)

11:00-11:45 Meeting with Mr. D.R. Mehta, Chairman, Securities and exchange Board of India, 1st floor, Mittal Court, E Wing, 224 Nariman Point, Mumbai 400 021

12:00-12:30 Meeting with Mr. Ratan Tata, Chairman, Tata Sons ltd. at Bombay House, Homy Kody street, Port, Mumbai 400 001. Tel: 304 3725. (to be confirmed)

12:45-13:30 Press interviews with Business Week and CNBC in Taj Mahal hotel

13:30-14:45 Lunch with US bankers/securities executives

15:00-16:00 Meeting with Mr. Bimal Jalan, Governor, Reserve Bank of India at the Reserve Bank of India Building, 1st floor, Mumbai 400 001

17:30 Return to the hotel

Tuesday, Sept 18

03:30 Depart Mumbai for Seoul by Korean Air

That's all for now. If you want to discuss please feel free to call me at home tonight at (b) (6). (remember we're 10 and 1/2 hours ahead) or e-mail me at home at tasneemahar@hotmail.com. I'll check my e-mails.

 Regards! Scott
TO: OPIC Board
FROM: Under Secretary of State Alan P. Larson
SUBJECT: Gaza Power Plant Project

At the December 14th meeting of the OPIC Board, Board members raised several questions regarding the Enron Power Plant project in Gaza for which OPIC is being asked to provide approximately $54 million in financing. Detailed below are responses to each of these issues. I believe that the information below fully addresses the Board's concerns and recommend that the Board vote expeditiously to approve the project.

The Saudi Bin Ladin Group

The firm's history and reputation. The Saudi Bin Ladin Group is one of Saudi Arabia's largest companies. Its activities include construction, industrial and power projects, petroleum, chemicals and mining, telecommunications, operations and maintenance, manufacturing, trading, and satellite communications. The firm's estimated net worth is $1 billion, and it employs more than 35,000 people. Known as "builders to the king," the company has been the Saudi Government’s prime contractor for building the kingdom’s highways and was in charge of the $6 billion project to renovate and expand the Holy Mosques in Mecca and Medina. It has also built many of the palaces occupied by senior members of the Royal Family. The company has subsidiaries and offices in Canada, Cyprus, Egypt, France, Germany, Jordan, Indonesia, Italy, Lebanon, Malaysia, Spain, Switzerland, UAE, the U.K., and the United States.

Working in partnership with both the U.S. government and with U.S. firms overseas, the Saudi Bin Ladin Group has engaged in many of the Middle East region's largest infrastructure projects. The company is building the PP9 power plant in Riyadh in a $1 billion joint venture with General Electric (to be completed in 2000). Similarly, it has worked with Raytheon and Bechtel on large power projects in Saudi Arabia. In 1997, it also partnered with Enron for an ultimately unsuccessful bid on the $1.2 billion 1,750MW Shuaiba power plant project. It built the housing for U.S. Military Forces at Eskan Village in Riyadh and at the Prince Sultan Airbase near Al-Kharj. Among the company's other major international projects is the runway construction at the new international airport in Kuala Lumpur, Malaysia. The Saudi Bin Ladin Group is widely regarded as a reliable and well-connected business partner.
Disassociation with Usama Bin Laden  Over the years, the Saudi Bin Ladin Group has repeatedly disassociated itself both publicly and privately from Usama Bin Ladin. Usama is the only son of over thirty brothers who is excluded from the family business. In 1994, Bakr Bin Ladin, the head of the Saudi Bin Ladin Group, stated publicly:

"I and all the members of the family--who number more that fifty people--express our great regret, sorrow, and disapproval of all, of Usama's behavior, which we neither control nor condone. In light of the fact that Usama has been living outside the Kingdom of Saudi Arabia now for more than two years and all of the efforts we have made to bring him back to the correct path, we consider him singularly responsible for his statements, actions, and behavior, if in fact he did them."

Furthermore, in September 1998, Yahia Muhammad Bin Ladin, the company's Deputy Chairman, issued the following declaration (see attached Annex I):

"As Deputy Chairman of the Saudi Binladin Group, I hereby issue the following declarations on our position vis-à-vis the subject, Usama bin Muhammad bin Awad Bin Ladin:

1. Usama Bin Ladin possesses no legal or beneficial interest whatsoever (directly or indirectly) in Saudi Binladin Group or any of its subsidiaries, affiliates or other entities which form part of the Saudi Binladin Group.

2. Usama Bin Ladin possesses no interest whatsoever (directly or indirectly) in any assets or any other property belonging to the Saudi Bin Ladin Group or any of its subsidiaries, affiliates or other entities which form part of the Saudi Bin Ladin Group.

3. Usama Bin Ladin possesses no contractual, business or any other relationship whatsoever (directly or indirectly) by the Saudi Bin Ladin Group or any of its subsidiaries, affiliates or other entities which form part of the Saudi Bin Ladin Group.

4. Usama Bin Ladin is not funded (directly or indirectly) by the Saudi Bin Ladin Group or any of its subsidiaries, affiliates or other entities which form part of the Saudi Bin Ladin Group."

Treasury Department sanctions assessment  OPIC and State have also received assurances from the Office of Foreign Asset Controls that there are no sanctions imposed on this company by the U.S. Treasury Department. If OFAC had reason to believe that the company is linked to Osama Bin Ladin, then the company would, as a result, be subject to USG sanctions.

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Bin Laden Company association with the Gaza Power Project  The Saudi Bin Ladin Group has no direct, and hardly any indirect, involvement in this project. It is a minority shareholder in the Arab Palestinian Investment Company (APIC), with less than 1% equity ownership of APIC (contribution only $500,000 to the total APIC equity pool of more than $50 million). APIC, in turn, is a member of the Palestinian Electric Company (PEC), the consortium which is Enron's partner in this project. APIC holds 6% of the total project, a share that will be reduced when one-third of the total shares are offered on the open market to private Palestinian investors. The Saudi Bin Ladin Group, therefore, has less than a .06% interest in the Gaza Power Project. Consistent with its lack of involvement in the project's partnership arrangement, Enron reports that the Saudi Bin Ladin company has not participated in any aspect of the Gaza Power Project.

In conclusion  There is no information indicating an existence of ties between Usama Bin Ladin and the Saudi Bin Ladin Group. On the contrary, the evidence shows that the company is reputable, with a well-regarded history of partnership with major American companies, international companies, and the U.S. government. Furthermore, the Saudi Bin Ladin Group plays no role in the Gaza Power Project since it is simply a 1% investor in a minority investor in the project. In light of the above, OPIC may conclude that 1) the Saudi Bin Ladin Group is united to its notorious relative of the same name, and 2) that the company's indirect and minimal involvement in this project is not an issue that will inhibit OPIC from financing the Gaza Power Plant project.

Support of the Government of Israel

Israeli support for the project  The Government of Israel, past and present, supports the economic development of Gaza. Demonstrating this approval, Ariel Sharon, Minister of Infrastructure under the previous Israeli Likud government, provided the Palestinians with a May 1998 letter expressing Israeli support for the construction of a power plant in Gaza. Although the original support for the project was contingent upon the construction of an associated desalination plant, the current Israeli government has since reiterated its support for this project without conditions. On October 21, 1999, [(b)(6)] told the U.S. Ambassador in Tel Aviv that the Government of Israel supported the project with the power plant alone. [(b)(6)] has asked that Enron consider a desalination plant in the future and Enron has promised to do so. Israel's current [(b)(6)] has also expressed Israeli support for the project to the U.S. Embassy in Tel Aviv.

In addition, I spoke on this subject with Israeli Prime Minister Barak's [(b)(6)] on two separate occasions, in October 1999 and again in January 2000. During the January 2000 phone call, [(b)(6)] responded positively. He further reassured the GOI's support in his most recent meeting with Ambassador Indyk. At that time, [(b)(6)] confirmed the Israeli government's unequivocal support for the Gaza Power Project. He noted that all of the plant's output would be bought by the PEC. He also asserted the GOI's interest in seeing the construction of a desalination plant in later phases of the project's development, but confirmed that the GOI was no longer conditioning its support on the construction of such a plant.
Israeli support for economic development in Gaza and the West Bank Israel's overall support for Gaza's future economic development is further illustrated by its recent decision to allow the PA to sign contracts with foreign companies for the exploration of gas off the Gaza coast. This approval was given despite the facts that mineral rights in this area were left ambiguous in Israeli-Palestinian agreements. Prime Minister Barak has also demonstrated his support for economic cooperation by approving December 22, 1999, natural gas agreement between Israel and Egypt. Calling the project the "Pipeline of Peace," Barak noted that the line would supply gas to Israel, Gaza, and later to Turkey (see attached Annex 2).

In conclusion The Israeli government has repeatedly stated or demonstrated its interest in the successful implementation of the Gaza Power Project. In light of the above, OPIC may conclude that the Israeli government will support the project.

Transparency and Equity Participants

PCSC The Board expressed concerns regarding the involvement of certain equity participants. The participation of the Palestinian Commercial Services Company (PCSC) and of Mr. Mohammad Rashid, in particular, was raised. As Chairman Yasser Arafat's advisor on economic issues, Mr. Rashid plays an important role in the development of economic policy and economic negotiations with Israel. He also serves as the head of PCSC, a government-owned holding company with shares in many of the major commercial activities in the West Bank and Gaza (e.g., petroleum, concrete, telecommunications, utilities, advertising, gambling, beverages and insurance projects). PCSC is also responsible for promoting Palestinian business and infrastructure development and for encouraging foreign investment in Gaza and the West Bank. It was in this capacity as PCSC chairman that Mr. Rashid and this project were introduced to Enron.

PCSC association with the Gaza Power Project PCSC is a minority shareholder in the PEC. The company holds 6% of the total project. This share will be reduced when one-third of the total project's shares are offered on the open market to private Palestinian investors. At that time, the PEC will hold no more than one-third of the total project shares. The small size of PCSC's share in the Enron project (4%) combined with the strength of Enron and the other partners leave PCSC with a limited impact on the decision-making for the project.

Transparency and Risk Mitigation The Palestinian Authority has repeatedly asserted its commitment to increase transparency in the West Bank and Gaza. In October, 1999, Chairman Arafat responded to the international donor community's concern about this issue by announcing the establishment of a ministerial-level committee to work with the IMF towards economic reform, greater transparency, and the passage of commercial legislation.
Upon the recommendation of this Committee, Chairman Arafat signed a landmark Economic Reform Decree on January 11, 2000. This decree calls for important steps in the areas of economic transparency, accountability, and fiscal responsibility (see attached Annex 3, official translation of the decree). It includes:

1) the consolidation of all PA revenues under the Ministry of Finance,
2) the consolidation of the West Bank and Gaza payroll offices under the Ministry of Finance, and
3) the opening the books of all quasi-governmental commercial holdings -- including PCSC whose activities, while closely held in the past, will soon be reviewed by a leading Western accounting firm.

During his January 20, 2000, bilateral meetings with President Clinton and Secretary Albright, Chairman Arafat reiterated his commitment to instituting transparency in Palestinian government activities.

**Risk mitigants** Demonstrating the seriousness of these objectives, the PA has providing a number of risk-mitigating incentives to the Gaza Power Project's finance agreements. These safeguards are designed to make this project financeable not only to OPIC but also to other financial institutions and to Enron’s own Board of Directors. Enron is contributing its own funding to this project. Some of the mitigating factors include:

1) A guarantee by the Palestinian Authority for the performance of all obligations of the Palestinian Energy Authority (PEA), the purchaser of the Gaza Power Plant’s output. This includes coverage of PEA’s $20 million letter of credit. The guarantee was signed by Chairman Arafat (see attached Annex 4, signature page of the document), and

2) An Implementation Agreement signed by the PA which makes overt statements of support for the project and the project company including (see attached Annex 5):

   a) “PNA (PA) agrees that neither it, nor any other Palestinian Government Authority shall ”interfere” with the construction and operation of the Facility or take any action that may cause or adversely affect the activities or economies of [Enron’s project company] or its (its) shareholders.”

   b) “PNA (PA) agrees that it shall not grant, issue or allow to exist, or permit any Palestinian Government Authority to enact any legislation or take any other action that could be reasonably be expected to have a material adverse effect on [Enron’s project company], project lenders or [Enron’s project company] shareholders.”

Furthermore, the project company’s Board of Directors will consist of six Enron representatives, six PEC representatives (one from each of the six consortium members), and three local representatives to be selected after the public offering. In accordance with the shareholder agreement, Enron and its PEC partners must vote as a block. No one company, especially not the local firms with only one vote each, can control the Board.

**SENSITIVE BUT UNCLASSIFIED**
PA strategic interest In assessing this funding request, it is important to appreciate the significance of the Palestinian Authority’s strategic interest in the project’s success: The economic need for a power plant in Gaza is great. Gaza is currently dependent upon the Israeli Electric Company for all of its energy requirements. The power supply is intermittent, and there are many hours each day during which no electricity is available. This situation renders it difficult for meaningful commercial growth to occur. The Gaza Power Plant Project will allow for a clean, reliable, and efficient source of energy that will be the cornerstone for the much needed industrial development of Gaza, and the project will improve the quality of life of Palestinians in Gaza.

In this context, it is also important to note the Palestinian Energy Authority’s four-year history of timely payments to the Israel Electric Company for its power purchases (which are more costly than locally produced power). These timely payments continued even during the years of prolonged border closures between the West Bank/Gaza and Israel, demonstrating the Palestinian Authority’s commitment to ensure the availability of electricity in Gaza.

The PA has also held out this project as an example of the stable business environment growing in Gaza and the West Bank. Recognizing that the economic growth of the area depends upon direct investment and the active engagement of foreign companies and governments, the PA intends for the Gaza Power Project to be the archetype for future infrastructure development. Chairman Arafat is aware that the success or failure of this highly visible project will impact the flow of capital and other assistance to the area.

In conclusion The PA views the Gaza Power Project as vital to its future growth. Providing power to its people and presenting its economy in a positive light, the Palestinian government is committed to seeing this project move forward to a successful conclusion. Efforts to increase transparency and to decrease corruption in all commercial government activities are paramount to succeeding in these goals. The PA continues to demonstrate its commitment to this project with both economic and legal reforms. In light of the above, OPIC may conclude that the Palestinian Authority 1) is committed to the success of this project and 2) will enforce appropriate levels of transparency to ensure the success of the project.

U.S. Government Support

Significant foreign policy objectives As the Middle East peace process moves ahead, it is crucial for the U.S. government to demonstrate to the Palestinians the fruits of peace. Economic development, in particular, is critical to the long-term viability of any peace agreement reached between Israel and the Palestinians: support for the agreement must come from the people as well as the government. Projects like the Gaza Power Plant allow the “men on the street” to see tangible improvements in their daily lives.

In this respect, OPIC is set to play a significant role in the execution of our government’s regional Middle East policy. By pledging $125 million in credits for the West Bank and Gaza in 1993, OPIC committed its program to the U.S. pledge for Palestinian assistance.

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This project, with Israeli, U.S., and Palestinian government cooperation, represents the type of project that the U.S. government envisioned when it made its commitments. To date, OPIC has spent only $2.6 million of its Palestinian funds, and this project will go a long way in moving closer to our goals.

The Department of State attaches, therefore, great importance to this project and is committed to providing its wholehearted support to ensuring that the project is successful. Through its Embassy in Tel Aviv, its Consulate General in Jerusalem and its headquarters in Washington, the Department of State will monitor developments affecting the project. The embassy and the Department will assist both OPIC and Enron in addressing any difficulties that might arise. On the legal front, Department of State lawyers are currently working with OPIC regarding issues related to arbitration and enforcement. The legal departments are also cooperating on the design of language to ensure that any Palestinian entity succeeding the Palestinian Authority (following permanent status negotiations between Israel and the PLO) will abide by the Power Project's agreements.

Conclusion

Enron's Gaza Power Project is the type of project that OPIC was established to finance. It promotes American foreign policy by being the catalyst to the economic development of a lesser-developed, emerging market economy. It will create American jobs and exports in an internationally competitive market through the $32.5 million in project-related U.S. procurement. It will promote quality business standards by using the most environmentally sound technologies available and by promoting higher standards for labor and worker rights at the facility. Finally, we believe that it has the potential to pass on zero cost the American taxpayers through the managerial and financial involvement of one of our most reputable energy companies. This project satisfies all of the requirements within the OPIC mandate.
Drafted: NEA/IAI: NRothstein 72647  NEA/IAI / ROTHSTEIN: Larson memo to Board
E:Deamner 64894
Cleared:NEA:TGVerstandig ok
   NEA/IAI:JWalles ok
   NEA/IAI:Jmcverry ok
   E:RAlbright ok
   EB/OIA:Bwatts ok
   L/NEA:TBoerek ok

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00100000000318
OFFICIAL STATEMENT BY
THE SAUDI BINLADIN GROUP

SUBJECT: USAMA BIN LADIN

As Deputy Chairman of the Saudi Binladin Group I hereby issue the following declarations on our position vis-à-vis the subject, Usama bin Muhammad bin Awad bin Ladin (a.k.a. Usama bin Ladin):

1. Usama bin Ladin possesses no legal or beneficial interest whatsoever (directly or indirectly) in Saudi Binladin Group or any of its subsidiaries, affiliates or other entities which form part of the Saudi Binladin Group.

2. Usama bin Ladin possesses no interest whatsoever (directly or indirectly) in any assets or any other property belonging to the Saudi Binladin Group or any of its subsidiaries, affiliates or other entities which form part of the Saudi Binladin Group.

3. Usama bin Ladin possesses no contractual, business or any other relationship whatsoever (directly or indirectly) with the Saudi Binladin Group or any of its subsidiaries, affiliates or other entities which form part of the Saudi Binladin Group.

4. Usama bin Ladin is not funded (directly or indirectly) by the Saudi Binladin Group or any of its subsidiaries, affiliates or other entities which form part of the Saudi Binladin Group.

Issued in Jeddah, Kingdom of Saudi Arabia, on the 5th day of September, 1998.

Yahla Muhammad Binladin
Deputy Chairman
Saudi Binladin Group
ANNEX 5
PNA Obligations under the Implementation Agreement

1. Executed on June 18, 1999 between GPGC and PNA (Yasser Arafat)

2. PNA grants GPCC exclusive (20 years) right to develop the project.

3. PNA grants GPCC exclusive franchise rights (20 years) to meet future electricity needs of Gaza as well as the right to wheel power to the West Bank if approved in the future by the Palestinian and Israeli governments.

4. PNA agrees to provide a suitable site and all access needed for construction and operating the Facility.

5. PNA agrees to provide assistance, if needed, to GPCC in obtaining construction materials, equipment, and labor at market prices and well as transportation of such materials and equipment in the Territories.

6. PNA agrees to provide the necessary transmission lines and substations needed to accept power from the Facility.

7. PNA agrees to exempt GPCC for all Palestinian taxes during the term of the agreement.

8. PNA agrees to assist GPCC with the importation into the Territories of all materials and equipment used in construction and operation of the Facility as well as exempt GPCC from all applicable import and customs duties.

9. PNA agrees that neither it, nor any other Palestinian Government Authority shall “interfere” with the construction and operation of the Facility or take any action that may cause or adversely affect the activities or economies of GPCC or its shareholders.

10. PNA agrees to provide legal opinions from its Palestinian and English counsels concerning the form of this agreement and any other consents or opinions necessary to obtain financing of the Facility.

11. PNA agrees to provide, except for normal internal guard service provided by GPCC at its own expense, any additional police or military protection deemed necessary and appropriate to safeguard the Facility in consultation with GPCC.

12. PNA agrees to provide yearly audited financial statements from PEA.

13. PNA covenants and agrees that it shall not grant, issue or allow to exist, or permit any Palestinian Government Authority to enact any legislation or take any other action that could be reasonably be expected to have a material adverse affect on GPCC, project lenders or GPCC shareholders.

14. PNA agrees to provide to GPCC any Palestinian Government Authorizations and further Consents necessary to construct, finance or operate the Facility.

15. PNA agrees that in the event the PNA is succeeded by any other entity or the constitution of the PNA is altered or amended (for statehood), the PNA shall ensure that it or its successor will take all reasonable steps required by GPCC or the project lenders to ensure that GPCC’s rights and PNA’s obligations under this agreement remain unaffected by any such change.
Agenda coming as well.

AG

> ---- Original Message ----
> From: Bauer, Kristen F
> Sent: Tuesday, December 11, 2001 7:01 AM
> To: Otto, Stanley A(Tokyo)
> Cc: Greenberg, Allen S(Tokyo);
> Subject: all the papers
>Stan and John, here's where we stand at the end of Monday.
>Attached are all the papers--the US positions and Responses to Japanese concerns have changed from those in your briefing books. (We will need to update Larry's and David's books as well.)
>I would suggest adding a del meeting into the schedule for early Thursday.

FYI, other things remaining to be done:

[b](5)

> See you in Japan! Kristen
>
>[[participants1210.doc>><<Points on US Concerns.doc>><<Responses to GOJ Specific Concerns.doc>><<Japan's Investment Climate.ppt>><<openingstmt.doc>><<Larry's FDI.ppt>><<US Participants.doc>]
>
> Kristen F. Bauer
> Country Officer, Japan Desk
> Telephone: 202-647-3154
> Fax: 202-647-4402
>
>This e-mail is unclassified based on the definitions provided in E.O.
>12958
Wunderlin, Linda

From: Wong, Marcia K [WongMK@state.gov]
Sent: Wednesday, December 05, 2001 12:48 AM
To: Abbott, Lucy K, Robert. Kaproth [E-mail]
Subject: Clearance on Cable attached on Enron

Guys: I know you're absolutely nuts--I've attached a draft cable on Enron and as I touched on the Japan financial impact briefly I wanted to make sure you saw it for comment/clearance. don't spend too much time on it as I know you've got Erai sama in town!

if i can have your comments by tomorrow that would be great.
<<12.2001EnronCable.doc>>

Marcia K. Wong
Trade Policy Unit Chief/Economic Section
US Embassy
10-5 Akasaka 1-chome
Minato-ku Tokyo 107-8420
(tel) 3224-5029; (fax) 3224-5019
1. SENSITIVE BUT UNCLASSIFIED. NOT FOR INTERNET DISTRIBUTION.
BUSINESS PROPRIETARY INFORMATION

2. Summary. The dramatic and rapid decline of Enron took many in Japan involved with energy markets and deregulation by surprise. Enron's Japan operations had been the most vocal proponents for energy deregulation in Japan and its withdrawal has been interpreted by some as a serious reversal to efforts to open up Japan's power and gas markets to competition. The media and financial analysts are also focusing on the financial impact of Enron's bankruptcy although analysts believe its effect is limited. US energy interests in Japan are now assessing how Enron's departure will affect their activities and one company in particular hopes to be able to step into the advocacy vacuum. End summary.

Enron—the Foreign "Player" in Japan's Potential Energy Market...

3. Enron Japan, established in April 2000, had been one of the most visible advocates for energy liberalization in Japan. Through E Power Holding Corporation (a joint venture set up in 1999, with Japanese company Orix, headed by pro-reformer XXXXX Miyaochi), Enron was exploring power generation ventures in several prefectures. The company had co-sponsored a widely attended conference on power deregulation in May 2001 and subsequently released a study with recommendations for energy reforms for Japan. One of Enron Japan's representatives agreed to chair the recently-created Energy Subcommittee of the American Chamber of Commerce. Now, with its recent filing for bankruptcy, there has been an impact on Japan's financial market as well as concerns in Japan that deregulation efforts have suffered a serious blow.

Is now played out?

4. Enron's collapse has had some reverberations in the Japan's financial markets but analysts believe it is not of overwhelming significance. Japan's Financial Services Agency Shoji Mori commented to press that Enron's bankruptcy would have "very limited" impact on Japan's financial sector. A Goldman Sachs analyst agreed that the impact would be "manageable," while a Merrill Lynch analyst described the impact of Enron on the banking structure as similar to a "mid-size domestic bankruptcy."

5. Japanese banks reportedly had some 100 billion yen of loans and other transactions outstanding with Enron as of December 4. Both Sumitomo Mitsui and MTFG publicly released figures on their loan exposure to Enron December 3. Sumitomo Mitsui indicated an outstanding exposure of 33 billion yen while MTFG cited 35.3 billion yen with Enron. Japanese money management funds also were affected. Four Japanese funds fell below par value last week due to losses on corporate bonds issued by Enron. The four companies—UFJ Partners Asset Management Company, Nikko Asset Management, Japan Investment Trust
and Sumisei Global Investment Trust lost 1.2 trillion yen Friday November 30 from a combined investment balance as of November 28 of 3.3 trillion yen.

Finatt: ANYTHING TO SAY ON THE SAMURAI BONDS?

6. On its presence in Japan's energy market, Enron Japan is keeping a low-profile, realizing last month that the company's financial troubles would cast into question their reputation and activities in Japan. Enron Japan had plans with to build power plants in Aomori and Yamaguchi prefectures and had been in active discussions with local governments. A joint project with a major Japanese textile company, Teijin Limited, may be on hold as Teijin reportedly asked Enron to cancel the joint feasibility study on a 70,000 kilowatt coal-fired thermal power plant in Shikoku. [(b)(4)]

A blow to deregulation efforts?

---------------------------------------------

7. Enron's demise has made it an above-the-fold press item for the Japanese major dailies and specialized energy press. Mainichi Shimbun opined in an editorial that with the California energy crisis and the Enron failure, "it was clear that the US electricity liberalization advanced too fast and too much." The editorial however continues to say that this does not mean that Japan should stop liberalization altogether as the country needs to "advance its competition and efficiency in the energy industry when the global economy requires cost reduction ...". The more conservative daily, the Sankei Shimbun, described Enron's withdrawal from the Japan market as an "undreamed of ambush" of some METI officials, which viewed Enron as somewhat of an ally in its efforts to liberalize the market. The Sankei comments that the loss of "gaiatsu" with Enron's departure will lead to the domestic industry "regaining its strength" and that the utilities will utilize Enron's failure in its arguments to counter what it perceives as the "evil effect of rapid liberalization". (GET A BETTER CLARIFICATION ON SANKEI) Nikkei had some kind words for Enron, saying it did contribute positively as a symbol of globalization, liberalization and innovation.
8. While some observers are commenting that Enron's failure will slow down deregulation efforts, METI Minister Hiranuma told the press that he did not expect the firm's bankruptcy to hinder ongoing electricity deregulation. Hiranuma stressed that electricity deregulation is needed, regardless of pressure from foreign entities, in order to revive the Japanese economy. In recent conversations with econoff, METI officials have lamented the absence of Enron presence from the policy debate as "extremely unfortunate" as they had had hopes that Enron Japan would have participated in the December hearing of the Electricity Industry Subcommittee (the group which is to develop recommendations on the next steps for deregulation of the power market). METI is now approaching other firms and told econoff that they hope that another US firm will emerge as the "flag bearer" on advocating sector liberalization.

Filling the Void

9. Other US companies recognize that without Enron as the front guy on the issues, they will need to step up and more visibly support liberalization and market access issues in Japan. One US company representative in Japan indicated to econoff that it was ready to become more active in the debate but in a style different from Enron's customary "aggressive" policy. [(b)(4)]

10. Comment. The Enron failure will have some effect to USG energy deregulation efforts in Japan as we will have to make sure that its failure is not perceived as due to Enron's activities in deregulation but also we will have to counter the misperception that without the company's presence, the US government does not have a platform. Upping the industry profile will be difficult as many US firms are not present in Japan, monitoring progress from other offices in the region or from the US. Others with presence in Japan are assessing how or if they can be helpful in the policy debate without jeopardizing potential business interests. In future discussions on energy liberalization, we can continue to expect to have to fend off arguments that the California energy crisis is typical of deregulation. However, as the GoJ is interested in "real experience" as it studies the deregulation processes in other countries, we will also have to discuss the possible impact of Enron's failure on US efforts to deregulate its electricity market.
fyl

-----Original Message-----
From: Wong, Marcia K
Sent: Friday, October 19, 2001 4:33 PM
To: Abbott, Lucy K; Cheyne, Gerard A; Durbin, Andrew S; Froats, Daniel T; Greenberg, Allen S; Kevin Honan (E-mail); Kidd, Leigh P; Lackmann, Gerald R; Michalak, Michael W; Otto, Stanley A; Pellegrino, Daniel J; Stoner, Jeffrey H; Watson, Samuel R; Webster, Jessica M; Wong, Marcia K
Subject: FW: ACCJ Conference Room Reserved/ ACCJ committee list

another list from accj with the descriptions....

-----Original Message-----
From: Hidemi Umemura [mailto:humemura@accj.or.jp]
Sent: Friday, October 19, 2001 4:30 PM
To: Wong, Marcia K; 'Jonathan Kushner'; 'Crowther, Mark'
Subject: Re: ACCJ Conference Room Reserved/ ACCJ committee list

Dear Ms. Wong:

Please find the attached updated ACCJ committees & subcommittees list for
your information.
I am not sure that it is the same list which you received before. Anyway,
the Energy Subcommittee is listed now. If you have any questions, please let
me know.

Regards,

Umemura, ACCJ

----- Original Message -----  
From: "Wong, Marcia K" <WongMK@state.gov>
To: "Jonathan Kushner" <jkushner@accj.or.jp>; "Crowther, Mark"
<mark.crowther@enron.com>
Cc: "Hidemi Umemura" <humemura@accj.or.jp>
Sent: Friday, October 19, 2001 2:48 PM
Subject: RE: ACCJ Conference Room Reserved
Hi—one of the ACCJ staff very helpfully emailed out the list of committees/subcommittees to us—many thanks. It is dated from 9/12/01 but hope the energy subcommittee will be listed in the next update!

---Original Message-----
From: Jonathan Kushner [mailto:jkushner@accj.or.jp]
Sent: Friday, October 19, 2001 11:25 AM
To: Marcia Wong; Crowther, Mark
Cc: Hideni Umemura
Subject: ACCJ Conference Room Reserved

Marcia, Mark: We've reserved the ACCJ conference room for 9:30-11:30 on Nov. 12 for a briefing with Neuffer and the others. If that time doesn't work and you'd rather do breakfast, we'll check into the TAC. Jon

******************************************************************************
Jonathan Kushner
Director, Policy Affairs
American Chamber of Commerce in Japan (ACCJ)
Masonic 39 Mori Bldg. 10F
2-4-5 Azabudai
Minato-ku, Tokyo 106-0041
Direct Tel: (03) 3433-8546
Fax: (03) 3433-8454
EMail: jkushner@accj.or.jp  Web: http://www.accj.or.jp
******************************************************************************
Aerospace
Chair Lance Gatling, Boeing Japan
A forum for U.S. aerospace and defense manufacturers' Japan-based representatives to exchange ideas.

Air Cargo
Chair Tad Johnson, P & W Aftermarket Japan, KK
Works toward the implementation and modification of procedures to facilitate the entry and distribution of air cargo in Japan.

Animal Health
Chair Yasuomi Yano, Pfizer Pharmaceuticals Inc.
Identifies areas in animal health product registration and distribution where additional deregulation is sought. Supports the international harmonization efforts made by governments and industries in the United States, Europe and Japan.

Architecture/Construction/Engineering*
Chair Ronald E. LaVoie, Lehman Brothers Japan, Inc.
Coordinates ACCJ efforts to encourage the opening of the design and (non-housing) construction markets in Japan. Functions as a point of contact between member companies, U.S. and Japanese governmental agencies, and the Japanese business community.

Asia Business*
Chair James M. Fuel, Deutsche Bank AG
Provides timely information about business-related issues in various Asian countries through monthly guest speaker programs. Monitors regulatory and political developments of interest to U.S. businesses active in the region.

Banking and Finance
Chairs Thomas Clark, General Electric Japan, Ltd.
Emreft Olsan, Shinsei Bank, Ltd.
Coordinates ACCJ activities on market access and regulatory issues within the banking industry in Japan. Sponsors seminars for members and acts as a conduit between Japanese banking institutions and their American counterparts.

Business Expansion*
Chair Robert Simon, Nick & Associates
Serves to promote U.S. commercial interests across a wide array of industries. Interfaces with the U.S. and Japanese governments, business organizations, and the media to educate and inform external parties on trade matters.

Chemicals
Chair (TBA)
Facilitates communication between U.S. and Japanese companies on industry-related issues. Helps expand direct investment and joint ventures.

Commercial Code Task Force
Chair Anthony Zalcom, Mori Sogo Law Offices
Coordinates input from ACCJ members across business sectors on aspects of the Commercial Code in need of reform, and works with the Japanese government and opinion makers to implement suggested revisions.

Compensation & Benefits
Chair Mark H. Steward, Deloitte Touche Tohmatsu
Promotes awareness of tax issues in Japan pertaining to the treatment of compensation and benefits. Seeks to offer fair treatment for Americans employed in Japan's taxation of compensation and benefits.

Corporate Counsel
Chairs Laurence Bates, General Electric Japan, Ltd.
Royanne Doi, ACE Insurance
Focuses on the needs and concerns of lawyers working in-house, i.e., working in corporate legal departments rather than practicing in private law firms.

Corporate Transactions
Chair Michael A. View, Ernst & Young LLP
Identifies tax issues in Japan pertaining to corporate transactions that are of critical concern to the American business community, and works to develop a strategy to obtain fair, equal and predictable treatment for American companies.

Crystal Ball
Chair Kimberly Forsythe, Voce, Inc.
Plans the ACCJ black-tie dinner dance held in December each year. With more than 1,000 attendees, it is the Chamber's largest event.

Direct Marketing*
Chair Eugene R. Raitt, AIG Companies
Sponsors speakers who cover a broad range of direct marketing issues: telemarketing, database management and business-to-business direct marketing, among others. Works on the deregulation of direct marketing in Japan.

Direct Selling
Chair Brian T. Taylor, Japan Heath Summit Inc.
Assists companies active in promoting products through direct selling methods. Established in September 1999, the subcommittee is active in information exchange, market access measures, and regulatory reform.

Energy
Chairs Mark Crowther, Enron Japan Corp.
Provides a focal point for exchange of views between potential energy market participants and Japanese government officials and regulatory authorities with regard to possible changes in energy industry law and/or energy industry regulations.

E-Business*
Chairs James R. Weisser, Enron Japan Corp.
Andrew R. Fried, PricewaterhouseCoopers
Informative monthly meetings and periodic seminars keep members informed about current trends in Internet-based commerce.

**Executive Briefing Breakfast**
Chair: Robert H. Simon, Nick & Associates
At members' request, organizes briefings on industry-specific topics in which a panel of speakers familiar with the Japanese business environment share their expertise and knowledge with participants.

**Financial Services**
Chair: Christopher P. Wells, White & Case LLP
Identifies key initiatives that affect the financial services industry. Presents programs and issues Viewpoints on efforts to reform Japan's financial services sector.

**Food/Agriculture**
Chair: Larry Blagg, Market Makers, Inc.
Works to lower tariffs for processed foods, improve certification standards, and reform food labeling requirements.

**Foreign Direct Investment**
Chair: Nicholas E. Benes, JTP Corporation
Monitors the environment affecting the creation and management of foreign investment in Japan. Recommends actions to be taken regarding local restrictions and limitations that affect the operation of foreign ventures.

**Government Relations**
Chair: Thierry G. Porté, Morgan Stanley Dean Witter Japan Limited
Monitors legislative and other political developments of interest to American companies doing business with Japan. Coordinates annual "Dookrock" visits in Washington, D.C. and Tokyo.

**Healthcare**
Chair: Mark Colby, Colby Group International, Inc.
Promotes the successful marketing of medical devices and equipment, diagnostics, pharmaceuticals, and medical services in Japan for U.S.-based companies. Works with the Ministry of Health and Welfare to encourage deregulation efforts, remove unnecessary regulations, and ensure the environment supports the development of innovative new products and services for Japanese patients.

**Healthcare Services**
Chair: Guy Harris, Digital Medical Communications Corp.
The Medical Services Subcommittee has been created to bring together companies with an interest in expanding the medical service industry in Japan. It is the aim of the subcommittee to offer expanding value to the Japanese medical system via the increased productivity and efficiencies available through Western developed localized services. It is also the aim to bring capitalistic forces to the forefront of solving the emerging healthcare crisis.

**Housing Industry**
Chair: Curtis Herron, K.K. Curtis Herron
Promotes U.S. housing products and services in the Japanese market. Meetings feature guest speakers and networking opportunities.

**Human Resource Management**
Chair: Leo Lawless, B Cube Ltd.
Helps to support companies in effective management of staff. Together with other professional organizations, works on monitoring Japanese labor laws. Publishes the triennial report People Management Issues of American Companies in Japan.

**Independent Business**
Chair: Mark Ferris, Building2 KK
Provides opportunities to develop relationships and mutual support among foreign enterprises based in Japan. Its popular Wisdom Council is an excellent venue for exchanging ideas among small and medium-sized businesses.

**Insurance**
Chair: Charles D. Lake, American Family Life Assurance Co. of Columbus
Focuses on developments in the insurance and financial services industry. Provides input to U.S. government organizations with regard to monitoring compliance and clarifying the impact of Japanese deregulation measures on market access.

**Intellectual Property**
Chair: Michael O'Keefe, Kroll Associates Inc.
Invites prominent guest speakers from the Japanese Patent Office, customs, other agencies and academia for monthly presentations on intellectual property-related issues. Holds workshops on license agreement drafting and negotiation and other practical matters.

**Investment Management**
Chair: Scott M. Gilman, Goldman Sachs (Japan) Ltd.
Promotes full and equal access to Japan's savings and retirement assets for American firms in Japan qualified to manage those assets. Works to increase the range and value of investment products to Japanese clients. Promotes the healthy growth and development of the investment management industry in Japan.

**Japan-America Cooperative Conference (JACC)**
Chair: Shojiro Mekino, Pacific Consulting, Inc.
Established in 1986 by the ACCJ and the Japan/Tokyo Chamber of Commerce and Industry. JACC identifies specific areas of mutual concern and coordinates joint Viewpoints on topics related to regulatory and other market access problems.
Leadership Forum*
Chair: Donald P. Karak Jr., AIG Companies
Forum for the leadership of the ACCJ, including all officers, governors, committee chairs, vice-chairs and the ACCJ office staff.

Legal Services*
Chair: Marcus Kosins Jr., Kosins Attorney at Foreign Law Office
James M. Minamoto, Anderson Mori
Keeps the American business community in Japan informed on legal and regulatory changes, legislative initiatives, trade negotiations and other law-related issues. Actively pursues liberalization of the rules restricting the activities of foreign lawyers in Japan.

Living in Japan*
Chair: Ken Joseph Jr., Jhep.com
Holds programs aimed at helping members, their families and companies deal with issues related to living and working in Japan. Programs cover diverse areas: culture, travel, sports, recreation, psychological adjustment and community service.

Marketing Programs*
Chair: Kyle Cheriton, Walt Disney International Japan Inc.
Hosts the ACCJ's popular Marketing Breakfast (monthly on the second Wednesday) and co-sponsors special events. Prominent speakers address a variety of marketing issues including advertising, public relations, sales promotion and brand building.

Medical Devices and Diagnostics
Chair: Ed Northup, Boston Scientific Japan K.K.
Promotes the successful marketing of medical devices and equipment in Japan by U.S. companies. Works with the Ministry of Health and Welfare to encourage its deregulation efforts.

Membership Relations*
Chair: John Y. Le Bourgeois, Temple University Japan
Recruits new members and develops ways to make membership more meaningful and valuable. Conducts orientation meetings for new members and seeks ways of encouraging participation in ACCJ activities. Sponsors bimonthly Nomu-nication networking parties for members and guests.

Nominating*
Chair: Ronald J. Anderson, AIG Companies
Responsible for submitting a slate of nominees for officers and governors to the membership prior to the annual election. Submits lists of nominees to the Board of Governors when there are vacancies between annual elections. Note: This is a closed committee.

Nutritional Supplements
Chair: (TBA)
The Nutritional Supplements Subcommittee serves on behalf of ACCJ member companies active in the nutritional supplements industry. Meetings are once a month, and activities focus on regulatory impediments regarding labeling, testing, licensing and other issues.

Paper Products
Chair: (TBA)
Works closely with the American Forest & Paper Association and the U.S. Embassy to address issues in the Japanese paper industry, particularly efforts to accelerate the reduction of Japanese tariffs on paper.

Pension
Chair: (TBA)
Identifies key issues that impact the developing defined contribution industry. Meets regularly with government and ministry officials to understand and then shape regulations that will govern defined contribution plans. Leverages global experience of committee members to publish Viewpoints regarding best practices and generally accepted standards for corporate retirement plans. Presents periodic updates on the developing DC market and general retirement plan issues.

Pharmaceuticals
Chair: (TBA)
Focuses efforts on reference pricing, rationalization of services and systems, and the development and registration of innovative products for Japanese patients. Works with government officials, physicians and industry leaders to monitor legislation.

Privacy Task Force
Chair: (TBA)
Coordinates the interests of ACCJ members across business sectors on aspects of personal data protection, monitors developments in the overall regulatory environment, and works with Japanese industry organizations to develop self-regulatory measures to ensure the protection of personal information.

Practice Liberalization
Chair: Jay Ponzecki, Morrison & Foerster L.L.P. (G.J.B.J.)
Works toward the creation of a fully free and fiercely competitive market in Japan to service Japan's liberalized business sector. Advocates the liberalization of full partnerships between Japanese and U.S. lawyers and for the removal of all artificial and anti-competitive restraints preventing U.S. lawyers residing in Japan from joining with Japanese counterparts to offer comprehensive legal services to clients.

Private Equity
Chair: (TBA)
Focuses on the needs and concerns of private equity investors by addressing issues, including disclosure, due diligence,
corporate governance, incentive-based compensation, financing alternatives and exit strategies.

**Programs**

**Chair** C. Joseph Lestage, Capital Investment & Realty, Inc.

Organizes breakfast, lunch, and evening programs featuring speakers of general interest. Programs have included global CEOs from American and Japanese companies as well as government officials. Plans joint networking events with other chambers of commerce.

**Ratings, Disclosure & Securitization**

**Chair** Yoshito Hirata, Fidelity Investments Japan Ltd.
Jeffrey T. Shimamoto, White & Case LLP

Promotes greater transparency and full disclosure in Japanese financial markets. Works to advance the utilization of credit risk evaluation/analysis within the financial community. Formulates and presents Viewpoints on developments and regulations involving credit rating and financial disclosure matters to the relevant Japanese regulatory and governmental authorities.

**Real Estate Finance**

**Chair** Eric J. Lucas, Babcock & Brown Co., Ltd.

Focused on all aspects of the rapidly developing real estate finance market in Japan. Aims to facilitate informed and effective ACCJ member input/involvement as important new legal and structural changes are introduced in areas such as real estate investment trusts, tenancy laws and real estate taxation reform.

**Securities**

**Chair** Edmond L. Papantonio, Lehman Brothers Japan, Inc.

Works to analyze issues of concern to the securities industry, develop positions on such matters for the Chamber and bring together the Chamber’s resources into a proactive stance on such matters.

**Taxation**

**Chair** Gary M. Thomas, White & Case LLP

Provides information on changes in U.S. and Japanese tax laws and other legislative matters. Develops lobbying positions on tax or financial issues. Helps to further the dialogue between U.S. and Japanese government officials on tax and financial legislative matters.

**Tax Treaty**

**Chair** Michael D. Cannon, PricewaterhouseCoopers

A committee formed to investigate the possibility of a new tax treaty between Japan and the United States.

**Technology**

**Chair** Michael J. Alfani, Building2 KK

Supports and promotes the expansion and diversification of sales of high-tech goods and services by American companies in Japan. Programs include guest speakers from government, leading technology companies and service providers.

**Telecommunications**

**Chair** Michael Kawachi, Lucent Technologies Japan Ltd.
Peter Butterfield, KVH Telecom

Provides a forum for discussion of trends, technological innovations and marketplace conditions in Japan.

**Telemarketing**

**Chair** Alejandro Font, Telemarketing Japan, Inc.

Sponsors programs that cover a broad range of telemarketing issues: operations, quality assurance, work staff management processes, as well as systems and database innovations within the telemarketing industry.

**Toiletries, Cosmetics, & Fragrances**

**Chair** Koichi Takashima, Procter & Gamble Far East, Inc.

Works toward international cooperation with respect to regulation of cosmetic products. Strives for consistent laws and guidelines that apply equally to all industry members.

**Transfer Pricing**

**Chair** Gary M. Thomas, White & Case LLP

Follows developments and recommends changes to Japan’s transfer pricing policies.

**Transportation & Logistics**

**Chair** Tad Johnson, P & W Aftermarket Japan, KK

Works toward the efficient use of air, sea and land transportation. Monitors legislation that affects equal access and free competition in the logistics service industry.

**Travel Industry**

**Chair** Fumi Akasaka, Carlson Wagonlit Travel Japan (JTB-CWT Business Travel Solutions)
Andrew A. Zimmerman, Northwest Airlines, Inc.

Promotes U.S. travel-related businesses and provides networking opportunities and educational programs for members. Active participants include representatives from hotels, airlines, resorts, agencies and other travel-related industries.

**University Briefing Breakfast**

**Chair** David H. Sattenwhite Ph.D., The Economist Group (Asia/Pacific) Ltd.

Organizes Q & A sessions to help American students and educators learn about doing business in Japan directly from Americans who live and work here.
Young Professionals Group

Chair Isabelle Bruckert, DISCO Inc.

Helps younger members establish business contacts within the community. Provides educational programs for career development. Sponsors monthly presentations, special events and an after-work networking party (monthly on the first Thursday).

*Standing committees

(Committee information 10-2001)
Washington Gang: here are some Q's/topics that may come up during the course of our many econ visitors for food for thought; these are off the top of my pointy little head—others will probably have more.

Tokyo Econ Gang: If you have more ideas, comments, spin, pls let folks know and cc me please. Do you think it would be useful if formal press points/guidance is being ginned up in DC for the many visitors coming our way, that it be circulated to other agencies as appropriate so we’re not in any way conflicting with each other?

1. exchange rate policy
2. NPLs/capital injection into banks
3. US-Japan FTA: what are merits/prospects?
4. Comment on Japan-Singapore FTA
5. PM ASEAN initiative
7. ENRON bankruptcy—failure of deregulation? what are implications? (Arthur Andersen too—we beat the drum out here all the time regarding financial transparency, the merits of sound accounting etc.)
8. WTO: US expectations for WTO/EU Safeguard issue in WTO against US anti-dumping measures (probably a reach but is there anything to say on the possibility of a WTO ruling agnst US on the tax/export-subsidy issue?)
9. US response to Japan going into serious recession, effect on rest of Asia
10. Japan's productivity crisis—what does Japan need to do to improve productivity?
11. comment on hollowing out issue
12. Whither the US economy—its affect on Japan; what’s going on with trade deficit?
13. PM Koizumi so far? How would you grade him/his progress on reforms?
14. What will be on the President's agenda during his visit to Japan? What will be the message for the PM?
15. What types of restructuring steps does Japan need to take to stimulate the economy?
16. Poultry—if still an issue

Marcia K. Wong
Trade Policy Unit Chief/Economic Section
US Embassy
10-5 Akasaka 1-chome
Minato-ku Tokyo 107-8420
(tel) 3224-5029; (fax) 3224-5019
4. (SBU) THE COMMISSION FOR THE REFORM OF PUBLIC SECTOR COMPANIES (CREP), WHICH MAKES THE CAPITALIZATION PROCESS, PUTS THE BLAME FOR THE POSTPONEMENT ON CURRENT FINANCIAL MARKET CONDITIONS PARTICULARLY FOR THE WOULD-BE EUROPEAN PARTICIPANTS. ANOTHER REASON OFFERED WAS THAT SOME FIRMS HAD NOT BEEN ABLE TO COMPLETE EVALUATING THE DAMAGE CAUSED BY HURRICANE GEORGES. CREP DIRECTOR ISA CONE, IN A DECEMBER 23 MEETING WITH ECO/POL OFFICIALS, SAID BLUNTLY THAT HE HAD REALIZED THAT THEY WERE "IN SUCH A POOR POSITION THAT WE COULDN'T TAKE THE RISK OF FAILURE." ISA CONE, LOOKING HARRED, SAID THE CAPITALIZATION WILL TAKE PLACE IN FEBRUARY OR MARCH 1999. HE CONFIRMED THAT HE HIMSELF WILL TRAVEL TO MEET WITH THE COMPANIES THAT HAVE SHOWN THE INTEREST IN THE CAPITALIZATION IN JANUARY.

5. (U) INDUSTRY SOURCES POINT TO MORE FUNDAMENTAL PROBLEMS WITH THE OFFERING. SAYING THAT TOO MANY QUESTIONS REMAIN OUTSTANDING. WOULD-BE BIDDERS HAVE REPORTEDLY NEVER RECEIVED AN ANSWER TO THE QUESTION OF WHAT THE CDE'S ASSETS ARE AT USD$65 MILLION WHICH IS HIGHER THAN EXPECTED AND ALSO, MANY BELIEVE HIGHER THAN IS WARRANTED BY THE CDE AUDIT. WHICH INDUSTRY SOURCES SAY IS STILL INCOMPLETE.

6. (RU) INDUSTRY REPRESENTATIVES WELCOME THE POSTPONEMENT, SAYING IT WAS PRACTICAL. SMITH-ENRON'S [(b)(6)] COMMENTED TO CONOFF THAT IT WOULD HAVE BEEN DIFFICULT IN THE RIM UP TO THE CHRISTMAS SEASON TO GET THE NECESSARY ENRON PERSONNEL TO SIGN OFF ON A BIG. THE INDUSTRY IS HOPEFUL THAT THE CREP AND CDE WILL BETWEEN THEM DO THE WORK STILL NECESSARY FOR A SUCCESSFUL CAPITALIZATION.

CDE TO PAY SMITH-ENRON

[(b)(4)]

ENRON HAS REPORTEDLY RECOMMENDED THAT THE LENDERS DRAW ON THE NON-RENEWABLE ENRON GUARANTEE FOR THE REMAINING FUNDS.

WHILE OTHERS NOT PAID

8. (SBU) AS CDE IS DEDICATING AVAILABLE FUNDS TO SMITH-
ENRON. OTHER IPP CLAIMANTS ARE NOT BEING PAID.
INDUSTRY SOURCES TELL US CDE IS EVEN IN DEBT TO LOCAL
IPP METALOM (NOTE: THIS IS SURPRISING GIVEN METALOM'S
POLITICAL CONNECTIONS). ALTHOUGH COASTAL'S MANAGER HAD
TOLD US HE PLANNED TO TAKE HIS PLANT OFF LINE THE WEEK
OF DECEMBER 14, COASTAL HAS NOW JOINED SEABIRD IN
SENDING A LETTER TO CDE SAYING THEY WILL TAKE BOTH
PLANTS OFF LINE ON DECEMBER 26 IF THEY AREN'T PAID.
BETWEEN THEN THE TWO PLANTS GENERATE 185 MW. THERE ARE
UNCLAS SECTION 82 OF 82 SANTO DOMINGO 8864698

ISDOC FOR 3/44/UI/CSO/IO/HWRO
ISDOC FOR 4/27/1/ITA/REP/MW/OCS/SIEGELM

E.O. 12958: N/A
TAGS: REREFERENCE PRL OR
SUBJECT: ELECTRICITY SECTOR WRAP-UP

INDICATIONS THAT CDE IS TRYING TO GET MONEY OUT OF THE
CENTRAL GOVERNMENT TO MAKE A BIG ENOUGH PAYMENT TO KEEP
THE POWER ON.

9. ISBUI IN THE MEANTIME: INDUSTRY SOURCES TELL US
CDE'S COLLECTIONS HAVE DECREASED IN THE SUPPOSED RUNUP
TO CAPITALIZATION. IN PLACE OF THE 48 PERCENT OF TOTAL
COLLECTIONS THE COMPANY HAS USUALLY REALIZED, IT HAS
BEEN COLLECTING ABOUT 20 PERCENT. SINCE HURRICANE
GEORGES, CDE HAS ALSO NOT RECEIVED THE FULL AMOUNT OF
THE MONTHLY GOVERNMENT SUBSIDY. OUR SOURCES LAY THE
BLAME FOR THIS AT THE FEET OF [(b)(6)]

WHO CONTINUES TO CLASH WITH [(b)(6)]

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COMMENT
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18. ISBUI IS NOTED ABOVE. INDUSTRY REPRESENTATIVES ARE
RELIEVED OVER THE POSTPONEMENT OF THE CAPITALIZATION ---
BETTER A POSTPONEMENT THAN A FAILURE. THEY ARE HOPING
THAT THE ADDITIONAL TIME WILL BE WELL SPENT IN
ANSWERING THE QUESTIONS OF WOULD-BE INVESTORS. HOPeful
BUT SOMewhat SKEPTICAL. ANOTHER POSTPONEMENT COULd
WELL BE THE DEATHKELL FOR THE CAPITALIZATION OF CDE.
ONE OBSERVER HAS COMMENTED THAT THE 1997 PRIVATIZATION
LEGISLATION WOULD ALSO ALLOW THE GOID TO SIGN A LONG
TERM CONTRACT WITH A FOREIGN COMPANY TO ADMINISTER CDE.
THis, WHILE A LESS IDEAL OPTION, MIGHT SERVE TO LESSen
THE POLITICIZATION OF CDE AND GET THE COMPANY BACK ON
ITS FEET.

CUBBISON
Sides of this particular issue. On the one hand, Patil has been quoted as saying “we are firm in our decision to not pay Enron since its power was too expensive,” adding that “the project is not in the interest of Maharashtra. No one will pay the rate Enron is charging.” On the other hand, he has also been quoted saying “we have every intention to pay the dues, but there is a fund crunch,” criticizing Enron’s “unjust haste in invoking the guarantee,” especially at a time when the state is on the verge of forming a review committee.” Both Deshmukh and Patil have been separately quoted as seeking the Center’s intervention in this case, with Deshmukh looking for “delivery” and Patil for the “grant” of the power. As for the Center’s position, one paper (The Economic Times) quoted unnamed sources in the Union Government saying that “we will pay Enron its dues and deduct it subsequently from Maharashtra’s plan allocation.”

3. (b)(1) McGregor has been quoted in several newspapers over the past two days explaining what the guarantees and counter guarantees mean and why they felt compelled to call them in at this time. In particular, McGregor has emphasized the implications for Maharashtra’s international reputation in not honoring signed agreements, and Enron took out a full-page advertisement in today’s economic times and issued a press release yesterday -- both highlighting the fact that Deshmukh has brought in 2.2 billion USD of foreign investment and contributed approximately 350 billion USD to the state and central Exchequer.

4. (b)(1) Comment: MIEB’s drugs and drugs approach is puzzling. Some observers are of the opinion that [(b)(1)] has ruffled many feathers and helped provoke a major crisis for the state. With its new million-dollar payment, he may be trying to maintain some credibility although now this fits with the confusing rhetoric from the CMO that is not at all clear.

[(b)(1), (b)(4)]
[[(b)(1), (b)(4)]

UNCLASSIFIED
DEPT TREASURY COMCEN
PH 622-2222 RM 1121/MT

PAGE 32 OF 32        MID-20010301284        06/1996        07/1241Z
[(b)(1), (b)(4)]

UNCLASSIFIED SECTION 82 OF 82 PM/MD 01/73

STATE PASS EXIMBANK FOR HUTCHINSON AND RITA Murrell
STATE PASS OPC FOR RUTH ANN NIGRASTLI AND BRIDGET WILLIAMS
STATE PASS USITP FOR RICK RZICKA
STATE PASS SIC FOR MARISA LACO
TREASURY FOR GEETHA RAO

USDOC FOR 3711/DOC/Africa/BRENNAN
USDOC FOR 653B/MAC/OIA/OSAG/AD/TERN
USDOC FOR 6830/DD/TO/AC/TSCHING
USDOC FOR RHARDING

S E N S I T I V E

E.D. 1:3951: N/A
TAGS: ENMG, EFNM, ECON, EINS, IN
SUBJECT: MSEG PAYS ANOTHER MILLION; EAROW AND GOM TAKE TO THE MEBA

[(b)(1), (b)(4)]

GOOD
BT
$3:73
62A9
MNNK

UNCLASSIFIED
thanks -- very well written, you must be in public affairs or have a graduate degree in English.

-----Original Message-----
From: Efird, Neil [mailto:EfirdN2@state.gov]
Sent: Wednesday, December 12, 2001 6:06 PM
To: 'Greg.Christopoulos@do.treas.gov'
Subject: Azurix

As promised:

On Dec. 11, EB/CBA, ES/OIA, WHA and Legal Advisers were briefed on the status of Azurix's problems in Argentina

The Department has agreed to facilitate meetings with Provincial Governor Ruckauf and to support AMEMB's efforts to increase GOA awareness as to the urgency of this matter. The Department also encouraged Azurix to contact Argentine press in Washington to increase knowledge in Argentina about Houston-based Azurix, i.e., it is (only) one-third owned by Enron and two-thirds owned by independent investors.
2. (U) ROBERT KELLY, MANAGING DIRECTOR FOR RENEWABLE ENERGY, ENRON INTERNATIONAL, VISITED ULAANBAATAR JUNE 23-26 TO UPDATE THE GON ON THE STATUS OF ENRON'S HIGH VOLTAGE POWER TRANSMISSION LINE PROJECT. KELLY MET WITH JAN KALICKI, COUNSELOR OF THE U.S. DEPARTMENT OF COMMERCE, ADVISORS TO THE PRIME MINISTER; OFFICIALS OF THE MINISTRY OF INFRASTRUCTURE DEVELOPMENT (MID) AND ENERGY AUTHORITY; THE ECONOMIC ADVISOR TO THE PRESIDENT; PARLIAMENTARIANS; AND OFFICIALS OF THE PETROLEUM AUTHORITY OF MONGOLIA (PAP).

3. (SBU) UNLIKE KELLY'S PREVIOUS ENRON VISITS WHEN GON OFFICIALS DID NOT SEEM TO BE WELL INFORMED, MINISTER BAYKHOO, MOID OFFICIALS AND OTHERS SEEMED EAGER FOR ENRON TO IMPLEMENT THE PROJECT TO BUILD A HIGH VOLTAGE TRANSMISSION LINE THROUGH MONGOLIA FROM THE IHKUTSK REGION TO NORTHERN CHINA. SINCE THE MID-HTF CONTRACT WAS SIGNED IN OCTOBER 1998, THE MID HAS WORKED TO ENSURE THAT THE REGULATORY ENVIRONMENT WILL BE IN PLACE. A NEW DRAFT ENERGY LAW TO BE PRESENTED TO PARLIAMENT THIS WEEK CONTAINS PROVISIONS FOR IMPORTING AND TRANSMITTING POWER ACROSS MONGOLIAN TERRITORY. GOI OFFICIALS HAVE ALSO DISCUSSED THIS PROJECT IN INTERGOVERNMENTAL WORKING GROUP SESSIONS WITH RUSSIA AND CHINA, AND WITH THE GOVERNOR OF IHKUTSK.

WIN WIN WIN

4. (U) THIS PROJECT WOULD BENEFIT EACH OF THE THREE COUNTRIES INVOLVED. RUSSIA, WHICH HAS EXCESS CAPACITY, WOULD GAIN HARD CURRENCY FROM ENERGY EXPORTS. MONGOLIA WOULD BENEFIT ECONOMICALLY FROM TAX REVENUE, EMPLOYMENT IN THE CONSTRUCTION AND MAINTENANCE OF THE TRANSMISSION LINE, AND AN UPGRADED POWER LINE TO PROVIDE ELECTRICITY FOR THE ERKHANTSII COAL POWER PLANT. CHINA WOULD GET CLEAN POWER, AT A LOWER COST THAN COULD BE PROVIDED FROM NEW COAL-FIRED PLANTS, AS INDICATED IN PREVIOUS REPORTING, THE POWER FROM THE MONGOLIA-HV LINE WOULD BE DESTINED FOR THE BEIJING/NORTH CENTRAL CHINA REGION. FURTHERMORE, ENRON BELIEVES THAT, BECAUSE OF MUTUAL AMICABLES, BOTH RUSSIA AND CHINA ARE HAPPY TO SEE A LARGE COMPANY IN THE RACE. EACH SIDE WOULD CONCLUDE A CONTRACT TO SELL OR BUY WITH ENRON, NOT WITH THE OTHER COUNTRY. FROM THE MONGOLIAN
STANDPOINT: AN ADDITIONAL BENEFIT OF THE INTRODUCTION OF A
WELL-KNOWN MULTINATIONAL COMPANY INTO THE ENERGY SECTOR AND
ENGAGING U.S. INTERESTS IN KEEPING A BALANCE WITH CHINA AND
RUSSIA.

NEXT STEPS

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[(b)(1), (b)(4)]

CONFIDENTIAL SECTION 02 OF 02 (ULANBAATAR 02/001)

STATE FOR EAP/CM, E/GBA AND EB/EF

USDOC FOR COUNSELOR KALICKI AND P. HUEPER; ALSO FOR ITA/EAP
AND ITI/ENERGY

WHITE HOUSE FOR OVP-T. OSWALD AND NSC-LIEBERTHAL/KEITH

PASS AID/AME/EAP-C. DONKEY

PASS TDA-J. GRANDMAISON/G. JACKSON

PASS OFC-M. MEISSNER

USDOC FOR INTL AFFAIRS

BEIJING FOR ECON-S. REES AND CS-C. ADAMS

MANILA FOR USAID-D. BARNES

E.O. 12958: DECL: 7/1/94
TAGS: EMB, EINV, MG, RS, CH
SUBJECT: ENRON HIGH VOLTAGE TRANSMISSION LINE PROJECT

[(b)(1), (b)(4)]

CONFIDENTIAL
1. **SUMMARY:** Berlin has selected a Franco-German consortium as the preferred bidder for a 49.9 percent share of the state-owned waterworks, Germany's largest water and effluents handling company. This is the first major privatization in this sector in Germany and the fourth privatization of a Berlin utility (following electricity) in recent years. The winning bid was DM 3.3 billion plus many expensive future commitments. Enron lost, despite having placed a very generous bid. With an estimated investment need of DM 388 billion in this sector in Germany in the next few years and local authorities suffering from increasing budgetary constraints, more sales of municipal water utilities to private investors and operators are to be expected. End summary.

2. A Franco-German consortium consisting of the German diversified energy giant RWE, a major French water specialist Compagnie Générale des Eaux (Vivendi), and the German insurance company Allianz (one of the world's largest insurance companies) looks set to be the winner of three competitions for the 49.9 percent share of the Berlin waterworks (BWB). The city will retain the controlling interest in the new holding, which also contains BWB's operations in Central and Eastern Europe as well as Asia. The losers in the process were Enron in partnership with the Hessen state bank and a consortium consisting of the Berlin-based Bankgesellschaft Berlin and the French suel Lyonnaise des Eaux (the world's largest water and effluents operator).

3. RWE/Vivendi/Allianz bid DM 3.3 billion for BWB and pledged to commit DM 2.8 billion to turning up a deficitary methane production facility in the former GDR. The consortium also made a large number of major commitments: to keep current water prices until December 2003, to continue employing 280 personnel for the next 15 years, to invest DM 5 billion in BWB over the next 10 years; to retain BWB as an independent company with its seat of business in Berlin; to relocate various consortium subsidiaries with 130 jobs in Berlin by the end of 2004; to develop BWB as a national and internationally active company and Berlin as a center for water and effluents management technology.

4. With nearly 4 million customers for water and effluents, approximately 6,400 employees and operations ranging from shares and investments in eastern Europe and telecommunications along its 1,400 km pipelines in Berlin to the innovative but severely deficitary sludge firing unit used to manufacture methane, BWB is the largest water utility in Germany. While water consumption in the area continues to fall and prices are among Germany's highest, turnover fell to DM 1.9 billion in 1998 with a severe drop in profits to DM 65 million. To date these profits have flowed into the city budget. Which has also used BWB funds as a stop-gap in times of crisis. The privatization terms will ensure the city a secure income in the future too.

5. The tender process has been accompanied by a cacophony of protests and harassment from all political parties, including the CDU and SPD that form the city coalition government, and unions and management of BWB, who were united in their distaste for privatization. A succession of press releases of new unpleasant truths about the real inner life of BWB threatened to frighten off bidders and legislation necessary for the partial privatization was repeatedly delayed in Parliament. The goal now is to obtain parliamentary approval for the privatization by July so that the purchase price can still be used to balance the 1998 city budget, which is hopelessly in the red. This assumes that a constitutional challenge by the opposition Green and ex-communist PDS parties will not succeed. They argue that the privatization of water facilities is unconstitutional. That the sale is a concealed credit and that their calculations show that BWB would have to raise its prices by at least 10 percent in 2004 and is thus at the expense of the electorate.

COMMENT

6. The selection of the RWE/Vivendi/Allianz consortium repeats a pattern established in previous privatizations in Berlin. Each resulted to a consortium consisting of one foreign specialist bidder and at least one German partner with operational experience in the country. In all cases the winning...

7. THE LARGE BID FOR A MINORITY SHARE IN BWB SURPRISED UNCLASSIFIED

DEPARTMENT FOR EB AND EUR/AGS

USDOC FOR 510B/ITA/TD/81/IRASMUSSEN
USDOC FOR 2112/ITA/MAC/CE/8/B/TOMLINSON

E.O. 11951: N/A
TAGS: ECON, EFIN, ENV, PGOV, CM
SUBJECT: BERLIN: GERMANY'S FIRST MAJOR WATERWORKS PRIVATIZATION: U.S. FIRM ENRON LOSES TO FRANCO-GERMAN CONSORTIUM

OBSERVERS WHO HAD BELIEVED THAT THE CITY WOULD BE LUCKY TO ACHIEVE THE DM 2 BILLION IN 1998. THE HIGH BID PRICE SEEMS TO BE THE COST FOR A STRATEGIC GATEWAY TO CENTRAL AND EASTERN EUROPE AS WELL AS INTO THE RATIONAL WATER MARKET.

8. DEUTSCHE BANK HAS ESTIMATED A NEED FOR APPROXIMATELY DM 200 BILLION FOR INVESTMENTS IN THE WATER SECTOR IN GERMANY OVER THE NEXT FEW YEARS. MAINLY IN THE EVER MORE DERELICT PIPELINE INFRASTRUCTURE. ABOUT 6,700 MUNICIPALLY-OWNED COMPANIES NOW OPERATE THE WATER AND EFFLUENTS HANDLING SECTOR WITH THE BENEFIT OF AREA MONOPOLY STRUCTURES AND FOR CONSUMER PRICES WHICH ARE AMONG THE HIGHEST IN EUROPE. GROWING BUDGETARY CONSTRAINTS MAKE IT UNLIKELY, HOWEVER, THAT THESE MUNICIPAL OPERATORS WILL BE ABLE TO RAISE THE FUNDING NECESSARY FOR SUCH INVESTMENTS IN THE FUTURE ON THEIR OWN SO THAT THE DOOR WILL BE OPENED - HOWEVER, UNWILLINGLY - TO COMMERCIAL OPERATORS IN THE NEAR FUTURE. SUCH PRIVATIZATIONS, HOWEVER, ARE LIKELY TO REMAIN CONTROVERSIAL.
INTRODUCED INTO THE BOLIVIAN CONGRESS IN JANUARY WITH STRONG SUPPORT FROM THE BOLIVIAN ADMINISTRATION. THE LAW REMOVED BECAUSE ARTICLE 25 OF THE BOLIVIAN CONSTITUTION PROHIBITS FOREIGNERS FROM OWNING OR HAVING RIGHTS OVER LAND WITHIN 50 KILOMETERS OF THE BORDER EXCEPT IN THE CASE OF "NATIONAL NECESSITY." WILL CREATE 11 CORRIDORS FOR INFRASTRUCTURE PROJECTS LINKING BOLIVIA WITH ITS NEIGHBORS. THE MOST IMMEDIATE BENEFICIARY WILL BE THE ENRION/SHELL CONSORTIUM TRANSBRESIS, WHICH CAN NOW MOVE FORWARD WITH CONSTRUCTION OF THE QUIRIBA GAS PIPELINE.

[(b)(1)]

5. (SU) WHILE ENRON HAD THE MOST TO LOSE FROM DELAY THE BRAZILIAN INITIATED THE ELECTRICITY GENERATION PLAN IN QUIRIBA FIXED A SPECIFIC DATE IN OCTOBER BY WHICH THEY HAD TO CONVERT FROM DIESEL TO GAS AND A FINE OF UP TO $50,000 FOR EVERY DAY ITS COMPLETION IS DELAYED BEYOND THAT DATE. OTHER 93 INTERESTS WILL ALSO BENEFIT. ONE OF THE CORRIDORS WILL PERMIT VILROS' CONSTRUCTION OF THE SOLID PIPELINE FROM LA PAZ TO ILO, PERU (REF 71). IN ADDITION, NSG IN. INC., A CO-OWNER WITH THE SWEDISH VATTENFALL OF THE BOLIVIAN POWER COMPANY (CUBEBI) PLANS TO CONSTRUCT A GENERATING PLANT NEAR THE BORDER TO SELL ELECTRICITY TO BRAZIL. THE LAW ALSO GIVES THE GREEN LIGHT TO THE TELEPHONE COMPANY ENTEL'S (OWNED BY THE ITALIAN FIRM STET) FIBER-OPTIC LINK TO THE TRANSOCEANIC DROP IN PERU.

[(b)(1)]
COMMITMENTS FROM PRESIDENTIAL ADVISOR IVICA PASALIC
WITH RESPECT TO THE MEETING: (1) THE CROATIAN ELECTRIC
COMPANY (HEP) MUST BE PREPARED TO DISCUSS SPECIFIC
CONCERNS/ISSUES OVER PRICING RATHER THAN CAST RANDON
ALLEGATIONS; (2) THE GOC MUST DELIVER A FINAL DECISION
AT THE CLOSE OF THE MEETING (NO ADDITIONAL GOVERNMENT
REVIEWS/APPROVALS WOULD BE REQUIRED); THE PRESIDENT
HAS APPOINTED PRIME MINISTER MATESA TO OVERSEE THE
MEETING ON THE GOC SIDE AND CHIEF OPERATING OFFICER
COO JOSEPH SUTTON WILL REPRESENT ENRON.

3. (SUB) POST IS CONVINCED THAT THE PRESIDENT IS
COMM ITTED TO THIS DEAL AND SEES CLOSURE PRIOR TO THE
PLANNED GOC EVENTS IN CHICAGO EARLY APRIL. STIL.
HEP (AND POSSIBLY OTHER LOWER RANKED OFFICIALS) REMAIN
OPPOSED AND HAVE CONTINUED TO OBSTREPTIC THE PROCESS.
THEMEETINGMIGHTFINALLYBEHALTED ASIDES THEREALISATION
RESULTING IN AN INITIATED PPA. ON THE OTHER HAND, IT
COULD END WITH ENRON'S DEPARTURE FROM THE PROJECT. END
SUMMARY.

INITIATING OF DRAFT PPA STALLED

4. (SUB) ON MARCH 1, ENRON AND HEP COMPLETED WORK ON
THE DRAFT PPA (NOTE: ONLY THE GAS PRICE WAS LEFT BLANK.
PER PREVIOUS AGREEMENT, TO BE FILLED-IN AT A LATER DATE
WHEN ENRON SECURED A LOWER GAS PRICE FROM GALIOPHROM)
SINCE THEN, HEP HAS REFUSED TO INITIAL THE DOCUMENT.
IN ENRON'S VIEW, THE DRAFT PPA HAS BEEN FINISHED.
HOWEVER, HEP Did NOT SEE ALL ITS CONCERNS ADDRESSED IN
THE DRAFT PPA. MINISTER OF ECONOMY MIRZO FORGES AND
HEP GENERAL MANAGER DARIO SEGIOVIC INSISTED THAT THE
DRAFT PPA ENCOMPASSED THE ESSENCE OF THE DEAL AND
THEY REQUIRED APPROVAL AT THE GOVERNMENT
SESSION. IN THE MEANTIME, AN INTERNAL GOC EXPERT GROUP
ADVISER PRIME MINISTER TIUHMAN LAST WEEK THAT ENRON'S
PROPOSED PRICE WAS TOO HIGH. NOTE: ENRON DOES NOT
NECESSARILY DISAGREE WITH THE COORDINATOR'S DETERMINATION.
ENRON REQUESTS THE INITIATED DRAFT PPA IN ORDER TO
SECURE A LOWER GAS PRICE FROM GALLIPHROM. A LOWER GAS
PRICE WILL REDUCE THE OVERALL COSTS AND PRICE OF
ELECTRICITY.)

PRESIDENT'S OFFICE AGREES TO HIGH-LEVEL MEETING

5. (SUB) FRI STATED WITH THE PROCESS (AND LACK OF
PROGRESS), ENRON BECAME VERY ACTIVE DISCUSSING THE
SITUATION WITH CROATIAN AMBASSADOR JUZULI, CONTACTING
THE PRESIDENT'S OFFICE AND SENDING A LETTER TO THE

UNCLASSIFIED

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6. (SBU) PASALIC AGREED TO ORGANIZE A HIGH-LEVEL MEETING BETWEEN THE GCC AND ENRON THAT WOULD ONE AND FOR ALL RESOLVE THESE QUESTIONS. THE AMBASSADOR INSISTED ON TWO COMMITMENTS FROM PASALIC REGARDING THIS MEETING. FIRST, THE GCC MUST DISCUSS SPECIFICS RATHER THAN SPEAK IN GENERALITIES OTHERWISE ENRON WOULD BE TRYING TO RESPOND TO A MOVING TARGET. SECOND, THE OUTCOME OF THIS MEETING MUST RESULT IN A FINAL DECISION. IN OTHER WORDS, THERE SHOULD BE NO NEED FOR MORE GOVERNMENT REVIEWS/APPROVALS (THIS WOULD ONLY OPEN THE DOOR TO ADDITIONAL VACILLATION). PASALIC ACCEPTED THESE POINTS.

7. (SBU) IN A SUBSEQUENT CONVERSATION WITH ENRON'S JOSEPH SUTTON LATER ON MARCH 19, THE AMBASSADOR STRESSED THE NEED FOR SUTTON'S PERSONAL PRESENCE AT THE MEETING. THE AMBASSADOR ALSO SUGGESTED THAT ENRON REQUEST THE PRESIDENT TO SELECT A TRUSTED ADVISOR WHO WOULD REPORT DIRECTLY BACK TO TUJMAN ON THE TONE/CONDUCT OF THE MEETING. THE AMBASSADOR WAS INFORMED THE NEXT DAY BY TUJMAN HIMSELF THAT PRIME MINISTER MATESA HAS BEEN APPOINTED TO PARTICIPATE IN THE MEETING.

8. (SBU) POST REMAINS CONVINCED THAT THE PRESIDENT IS COMMITTED TO THE SUCCESSFUL COMPLETION OF THE ENRON DEAL. IN HIS MARCH 11 MEETING WITH S/R SELBARG, TUJMAN EXPRESSED HIS SUPPORT FOR THE PROJECT. AGAIN, ON MARCH 20, TUJMAN FULFILLED THE AMBASSADOR ASIDE FROM THE MEETING WITH SFOR COMMANDER GENERAL NESIC AND STATED WITH STRONG PHYSICAL GESTURING THAT THIS DEAL WILL GO THROUGH.

9. (SBU) THIS MAY BE THE PRESIDENT'S WILL BUT IT IS ALSO A FACT THAT HEP CONTINUES TO OBSTRUCT. THE GAP BETWEEN THE UPPER AND LOWER LEVELS HAS NOT BEEN BRIDGED.
AND SOCIAL DEVELOPMENT (ONDE) ESTIMATED THAT
PRIVATIZATIONS FOR 1999 WOULD BRING IN US$ 28 BILLION;
HOURS IN THE RECENT AGREEMENT WITH THE INTERNATIONAL
MONETARY FUND (IMF) THAT FIGURE HAS FALLEN TO US$ 16
BILLION. DESPITE THE DEVALUATION AND WORRIES ABOUT
BRAZIL'S ECONOMY, SAO PAULO STATE GOVERNMENT OFFICIALS,
ENERGY SECTOR ANALYSTS AND ODESAF OFFICIALS TOLD ECONOFF
THAT CONGAS REMAINS AN ATTRACTIVE INVESTMENT.

3. WITH THE NEW BRAZIL-BOLIVIA GAS PIPELINE TO ENSURE AN
INCREASED AND STEADY SUPPLY OF NATURAL GAS TO THE REGION,
SAO PAULO ANALYSTS BELIEVE THAT CONGAS HAS VERY HIGH
GROWTH POTENTIAL. HOWEVER, THE NEW OWNER WILL HAVE TO
INVEST TO BUILD UP ITS DISTRIBUTION NETWORK AND INCREASE
ITS RESIDENTIAL CUSTOMER BASE.

4. ALL INTERLOCUTORS MENTIONED THAT FOREIGN GAS
COMPANIES HAD DEMONSTRATED THE MOST INTEREST IN THE SALE
OF CONGAS. MAJOR CANDIDATES INCLUDE: SHELL—WHO ALREADY
OWNS 20% OF CONGAS'S COMMON STOCK; KIPOF; AN ITALIAN GAS
COMPANY ALREADY OPERATING IN BRAZIL; AND ENOCO: A U.S.
COMPANY THAT PARTICIPATED IN BUILDING THE BRAZIL-
BOLIVIA GAS PIPELINE AND HAS SUBSTANTIAL EQUITY IN IT.

5. THE PROCEEDS FROM THE SALE OF CONGAS WILL GO TO
CONGAS' PARENT, THE ELECTRIC COMPANY OF SAO PAULO (CESP).
CESP WILL USE THE MONEY TO LIQUIDATE A PORTION OF ITS OWN
DEBTS IN PREPARATION FOR THE PRIVATIZATION OF THREE CESP
GENERATING FACILITIES THAT WILL TAKE PLACE IN MAY AND
JUNE OF 1999. IN TURN, THE MONEY FROM THE SALE OF CESP'S
GENERATING FACILITIES WILL BE USED TO PAY SAO PAULO STATE
DEBTORS; A PORTION OF WHICH COME DUE IN JUNE. THE
INTERLOCUTORS INDICATED THAT THIS IS WHY THE SALE OF
CONGAS COULD GO FORWARD AS PLANNED.

6. THE APRIL CONGAS PRIVATIZATION IS EXPECTED TO BE THE
FIRST OF SEVERAL PRIVATIZATIONS FOR THE RIGHTS TO
DISTRIBUTE PIPED GAS IN SAO PAULO STATE. THE
SEPARATE AREA INCLUDES CREATOR SAO PAULO, SANTOS AND
THE PARAIBA VALLEY. THIS REGION IS THE ONLY PLACE WHERE
CONGAS ALREADY HAS A DISTRIBUTION NETWORK, THOUGH
MODERATELY DEVELOPED. IN PLACE, THE REST OF THE STATE IS
CURRENTLY SERVED BY BOTTLED GAS. ANALYSTS TOLD
ECONOFF THAT THE BRAZIL-BOLIVIA PIPELINE, WHICH BISECTS
THE STATE AS IT RUNS FROM THE STATE'S WESTERN BORDER EAST
ALMOST TO THE COAST, WILL MAKE IT FEASIBLE TO PROVIDE
PEPARED NATURAL GAS SERVICE TO VIRTUALLY THE ENTIRE STATE.
FUTURE AUCTIONS OF RIGHTS TO DISTRIBUTE GAS BY PIPE TO
OTHER PARTS OF THE STATE ARE EXPECTED WITH PROCEEDS GOING
DIRECTLY INTO SAO PAULO STATE COFFERS.

CLIRE
MAN MOHAM ADHIKARY HAVE PUBLICLY ENDORSED DEVELOPMENT OF THE KARNALI RIVER'S HYDROELECTRIC CAPACITY IN RECENT CAMPAIGN STATEMENTS IN THE REGION. PRESS REPORTS LAST WEEK QUOTED ADHIKARY AS STATING SPECIFICALLY THAT THE UNM WOULD APPROVE ENRON'S PROPOSAL TO DEVELOP THE 10,000 MEGAWATT KARNALI-CHALINAPANI PROJECT. DEUBA WAS QUOTED IN "THE KATHMANDU POST" APRIL 18 SAYING: "IF WE SUCCEED IN DEVELOPING THE KARNALI PROJECT, WE CAN END POVERTY AND UNEMPLOYMENT." IN NEPAL.

4. (SBU) ENRON, MEANWHILE, HAS NOT YET RESUBMITTED THE SITE SURVEY LICENSE REQUEST IT MADE IN JANUARY 1999 (REFTEL), WHICH THE GOVERNMENT OF NEPAL ASKED ENRON TO REVISE TO CONFORM WITH THE TECHNICAL SPECIFICATIONS OF NEPAL'S ELECTRICITY ACT. ENRON OFFICIALS HAVE INFORMED POST THAT THE COMPANY IS CURRENTLY EVALUATING ITS POWER DEVELOPMENT STRATEGY FOR THE ENTIRE SOUTH ASIAN REGION AND WILL DECIDE SHORTLY HOW THE KARNALI PROJECT FITS INTO THAT STRATEGY.

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ISRAELI CONSULTANT UZI HALEVI, AMERICAN BUSINESS COUNCIL PRESIDENT MAC McCLELAND JR., AND ENRON PROJECT MANAGER ANDREW MAKK MET ON NOVEMBER 18 WITH OCM, ECON COUNSELOR, SENIOR COMMERCIAL OFFICER, AND EMBASSY ECONOMIST. THE DOE BEGAN BY NOTING THAT IN HIS RECENT MEETING WITH [(b)(1)] IT WAS CLEAR THAT THE GOVERNMENT OF THE PALESTINIAN AUTHORITY DOES NOT WANT TO ACCEPT THE PALESTINIANS WILL HAVE A POWER PLANT, AND WANTS TO SEE THE PROJECT SUCCEED. THAT SAID, THE EMBASSY REMINDED ENRON THAT THE PA HAD NOT YET TO COMPLY WITH THE OSL REQUIREMENTS, THE SUBMISSION OF AN ENVIRONMENTAL IMPACT STUDY AND NOTIFICATION OF THE PLANT SITE.

2. (CI) BERGSIEKER, NODDING IN AGREEMENT, SAID THAT HIS TEAM WOULD WORK WITH THE COGEN IN JERUSALEM TO FIND THE APPROPRIATE MANER TO ENCOURAGE THE PA TO SUBMIT THE REQUIRED ITMS. HE NOTED THAT THE ENVIRONMENTAL STUDY WAS DONE AND PROVIDED TO THE PA A WEEK EARLIER. HE HOPED THE PA WOULD SUBMIT THE ENTIRE DOCUMENT (OVER 500 PAGES) TO THE GOVERNMENT OF ISRAEL AND NOT JUST A SUMMARY. BERGSIEKER EXPECTS NO ENVIRONMENTAL ISSUES TO ARISE ONCE THE STUDY IS SUBMITTED. AS THE PLANT WILL NOT DELIVER OR EXCEED WORLD BANK GUIDELINES FOR AIR EMISSIONS, WATER, AND NOISE, AS TO THE SITE LOCATION, BERGSIEKER THOUGHT THAT ENRON MIGHT SUBMIT SPECIFICS ON THE SITE LOCATION TO THE GOVERNMENT DIRECTLY.

3. (CI) ANOTHER ISSUE BERGSIEKER WAS HOPING WOULD BE RESOLVED WAS THE OSL REVIEW. BERGSIEKER STRESSED HOW IMPORTANT THE OSL WAS TO ENRON, BECAUSE OF THE LEVEL OF DUE DILIGENCE THEY BRING TO A PROJECT. HE NOTED THAT THE INSURANCE PROCESS HAS BEEN RELATIVELY SMOOTH, BUT THE FINANCING HAS GONE SLOWER THAN HE EXPECTED. MAKK INTERJECTED THAT IT MIGHT BE BEST IF ENRON FACED TO FACE WITH OSL TO DISCUSS ANY FINANCING ISSUES THAT NEED TO BE RESOLVED.

5. (CI) IN PREPARATION FOR FUTURE LOGISTICAL ISSUES, LIKE MOVING TURBINES AND FUEL, BERGSIEKER MET WITH [(b)(1)]

BERGSIEKER EXPLAINED THAT ENRON'S AGREEMENT STIPULATES THAT THE PA WILL SUPPLY ENRON WITH LOW SULFUR DIESEL FUEL UNTIL NATURAL GAS IS AVAILABLE. THIS FUEL WILL HAVE TO COME IN THROUGH THE ISRAELI PORT OF ASHKELON, AND THEN MOVE BY TRUCK TO THE POWER PLANT. [(b)(1)] NO CLEAR, BERGSIEKER RESPECTED THAT IF ENRON DID NOT COORDINATE CLOSER WITH THE GOVERNMENT, IT WOULD FIND ITSELF IN ADVANCE OF ALL ISSUES THAT WILL REQUIRE ISRAELI COORDINATION.

6. (CI) [(b)(1)] ALSO TOLD BERGSIEKER THAT THE ELECTRICAL GRID IN GAZA IS INCOMPATIBLE WITH THE ISRAELI...
GRID, AND THAT ONCE THE ENRON PLANT IS PRODUCING POWER, THE GOI WILL SWIT OF POWER TO THE GAZA GRID. NOTE: THE PALESTINIANS HAVE TOLD ENRON AND US THAT THERE IS NO COMPATIBILITY PROBLEM. END NOTE. THIS CONCERNED BERGSTEINER. BECAUSE THE PLAN WAS FOR ENRON TO TURN ON EACH TURBINE AS IT IS INITIALLY INSTALLED AND THE FIRST TURBINE 28 MW IS DUE TO COME ON LINE NEXT SUMMER CANNOT MEET THE TOTAL GAZA DEMANDS. BERGSTEINER TOLD THE DCM THAT HE WONDERED WHETHER COMPATIBILITY REALLY WAS A CONFIDENTIAL SECTION 67 OF 67 TEU RIV 01596

STATE FOR NEA AND NEA/JA, SMG, NSC FOR REILLY/HALLEY

USDOC FOR 4526/31A/MAC/ANES/1/1/5MILS/HESS 4526/31A/MAC/ANES/4/1/5MILS/BEANS 4526/31A/MAC/ANES/4/1/5MILS/PLA/PARKER 4526/31A/MAC/ANES/4/1/5MILS/TELLER

PASS OPIC FOR MELISSA HOBIG, PAMELA BRACEY

E.O. 12958; DECL: 1/24/98

TAGS: ECON, EMG, BEAP, GO, JP, ETI, IS

SUBJECT: DCM MEETING WITH ENRON

PROBLEM

1. (CI) THE DCM NOTED THAT GAZA AND ISRAEL COULD IN TIME DEVELOP AN INTERDEPENDENT ENERGY RELATIONSHIP. ALTHOUGH THE PA MAY NOT BE ABLE TO ACCEPT THIS NOW, WE EXPECTED THAT THE PA BELIEVES THAT IF THERE IS EXCESS POWER TO SELL, THEY WILL SELL IT TO THE WEST BANK BEFORE SELLING IT TO ISRAEL. SELLING ELECTRICITY TO THE WEST BANK, HOWEVER, WILL NOT BE POSSIBLE FOR SOME TIME TO COME. THE DCM RECOMMENDED THAT ENRON LOOK CLOSER AT THE GAZA ISSUES FOR THEMSELVES. BERGSTEINER AGREED THAT THIS WAS NECESSARY.

2. (CI) BERGSTEINER CATEGORIZED ENRON'S MEETINGS WITH THE GOI AS POSITIVE, AND NOTED THAT HE WAS HAPPY TO HEAR THAT THE GOI HOPES TO SEE THE ISRAELI FIRM IN THE GAZA PIPING, BUT IS NO LONGER REQUIRING THE BUILDING OF A DESALINATION PLANT. BERGSTEINER REVIEWED ENRON'S INITIAL PLANS TO BUILD A DESALINATION PLANT ON THE SAME SITE AS THE POWER PLANT, BUT NOTED THAT ENRON HAD NOT DETERMINED WHETHER IT CAN MAKE DESALINATION AFFORDABLE FOR GAZA. NEVERTHELESS, THE POWER PLANT IS BEING BUILT TO ACCOMMODATE A DESALINATION FACILITY.

GAZA MINERAL RIGHTS

9. (CI) THE DCM REVIEWED WITH THE ENRON TEAM THE RECENT DECISION OF THE GOI TO ALLOW THE PA TO EXPLOIT OFFSHORE GAZA NATURAL GAS DEPOSITS AND THE PA INTEREST IN AN

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GOVERNMENT REGULATES ELECTRICITY PRICES PAID BY CONSUMERS. ENRON BELIEVES WORLD BANK INVOVEMENT IN ELECTRIC POWER PROJECTS HAS ENCOURAGED ANTICOMPETITIVE BEHAVIOR. END SUMMARY.

2. (U) ENRON OFFICIAL ROBERT BALDWIN VISITED EMBASSY ECONOMIC SECTION AUGUST 21 TO REPORT LATEST IN THE COMPANY'S EFFORTS TO GET THE CIVIL TO MOVE AHEAD WITH ITS PROPOSAL TO BUILD A 500MW COMBINED CYCLE GAS TURBINE POWER PLANT IN SOC TRANG PROVINCE IN THE MEKONG DELTA.

3. (U) BALDWIN WAS MUCH MORE OPTIMISTIC THAN IN THE MEETINGS IN JUNE. (SEE REF). AS HE DISPLAYED A GOVERNMENT DIRECTIVE DATED AUGUST 8 INSTRUCTING THE MINISTRIES OF INDUSTRY, PLANNING, SCIENCE, FINANCE, TRADE, THE STATE BANK, ELECTRICITY OF VIETNAM, PETROVIETNAM AND THE SOC TRANG PEOPLE'S COMMITTEE TO NEGOTIATE AND REACH AGREEMENT WITH ENRON ON THE BID CONTRACT, LAND ALLOCATION, AND OTHER AGREEMENTS BY MID-DECEMBER. SUBJECT TO SEVERAL CONDITIONS. ENRON CONSIDERS THE CONDITIONS TO BE ACCEPTABLE. THE MINISTRY OF INDUSTRY WAS INSTRUCTED TO COOPERATE WITH THE MINISTRY OF PLANNING AND INVESTMENT TO SETtle PROGRESSIVELY THE ISSUES INVOLVED. THE PLANT IS TO BE COMPLETED BY OCTOBER 2000 (A SLIPPAGE FROM THE LATE 1999 DATE PREVIOUSLY SOUGHT). ENRON WILL FINANCE BEGINNING CONSTRUCTION ITSELF; LATER SEEKING FINANCING WHEN THE PROJECT IS UNDERWAY.

[(b)(4)]

[(b)(4)]
NEW CARD

UNCLASSIFIED
DEPT TREASURY COMCEN
PH 622-2222 RM 1121/MT

PAGE 02 OF 02 MID-195823900016 036324 27/05/82

OPC/O/CANADIAN PETROLEUM BLOCK IN THE SOUTH CHINA SEA PREVIOUSLY CONSIDERED. PETROVIEAM HAS NOT YET GIVEN A
FIRM COMMITMENT. BUT ENRON IS CONFIDENT THE GAS EVENTUALLY WILL BE AVAILABLE; EVEN THOUGH A PIPELINE
COSTING $250-300 MILLION WILL HAVE TO BE BUILT.

7. (SBU) BALDWIN ADMITTED THERE WERE RISKS RELATED TO
FURTHER DONG REVALUATIONS AND THE FACT THE CURRENT FIVE
INCLAS SECTION 01 OF 02 REF 01 835857

SENSITIVE

STATE PASS TO USTR/ITANU/UIELASSO, OPC, AND EKIBANK
STATE ALSO FOR EUP/ERLVF, EIB/FD/OIA, EIB/IFD/OOF
STATE ALSO FOR AID/ANE
TREASURY ALSO FOR PATRICK STUART
SDEDM ALSO FOR ISA/FA/STERN
USDOC ALSO FOR CADIC/ICMP/EDF/OCA/APP
USDOC ALSO FOR FAIF/IT/DEA/CAWICKLE AND ITA/T0/STIF/SUFR
USDA/FAA ALSO FOR FAIF/IT/APRA/DASSELY AND KD/WAGNER
USDA ALSO FOR FAS/FAF/AO; FAS/ITP/OCA; FAS/ITP/AAO

E.O. 12555: N/A
TAGS: EMG, FROW, REP

SUBJECT: ENRON'S PROPOSED BOT POWER PROJECT AT SOC
TRANG

REF: FANDI 2216

CENTRAL COMMITTEE IN THE RETAIL ELECTRICITY RATE SET BY THE
NATIONAL ASSEMBLY IS ACTUALLY DENOMINATED IN DONG.
DEVALUATION WILL REQUIRE EITHER A HIGHER DONG PRICE PAID
BY CONSUMERS OR A LOWER DOLLAR PRICE PAID TO ENRON.

8. (SBU) COMMENT: ENRON HAS BEEN CRITICAL OF THE WORLD
BANK'S ROLE IN ELECTRIC POWER DEVELOPMENT IN VIETNAM,
BELIEVING THE BANK AND OTHER DONORS REWARD UNCOMPETITIVE
BEHAVIOR. ENRON CONSIDERS WORLD BANK FINANCING OF SOME
PARTS OF A PROJECT TO BE VALUABLE, BUT NOT IF THE BANK
CROWDS OUT PRIVATE INVESTORS OR LEADS COUNTRIES TO THINK
THEM THEY CAN MEET THEIR ENERGY NEEDS PRIMARILY THROUGH CHEAP
ODA FINANCING. SOME VIETNAMESE OFFICIALS MAY PREFER ODA
FINANCING IN THE HOPE IT COULD OFFER OPPORTUNITIES FOR
ILLEGITIMATE ENRICHMENT THROUGH INFLUENCING CONTRACT BIDS
AND AWARD. WHILE BOT PROJECTS OFFER LITTLE OPPORTUNITY
FOR THAT.

9. (SBU) COMMENT CONTINUED: THE METHODS VIETNAM IS
USING ARE NOT CONCLUSIVE TO QUICK DEVELOPMENT OF ITS
ELECTRIC POWER SECTOR. THE PROCESS MAKES FOR LONG
DELAYS, POWER SHORTAGES, AND HIGHER COSTS IN THE LONG

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UNCLASSIFIED

DEPT TREASURY COMCEN
PH 622-2222 RM 1121/MT

PAGE 01

Caveat (s) =

Handle Via

Action = [TRS] BOI (1), GI (1), IADB (1), IDB (1), IDOC (1), IMB (1), INL (1)

[TF (1)] [TI (1)] [DIMF (1)] [QG (1)] [SEN (1)]

CRC = E205

RR RUEATRS

DE RUEHLP 4906 3002113

ZN RUUUV ZZH

R 271210Z OCT 98

FM AMBASSY LA PAZ

TO RUEHC/SECSTATE WASHDC 8042

INFO RUCPD/USDCC WASHDC

BT

UNCLAS LA PAZ 884936

Sensitive

USDCC for 4331/ITA/OSA/THIELCH

E.O. 12958: N/A

Tags: EINV OPC BL

Subject: Embassy Comments on Cuiaba Project

Ref: State 1970103

Sensitive but Unclassified - Please Handle Accordingly

1. Mission fully supports development of Bolivia's second gas pipeline to Cuiaba. Transredes, the project's initiator, is a capitalized company owned by Sabicor (25%), Royal Dutch Shell (25%), and a combination of former workers and the Bolivian public (50%). It is also well-known to the mission and enjoys a solid reputation in Bolivia and worldwide as an efficient developer and manager of Bolivia's gas transportation network.

2. On October 26, the pol/econ counselor spoke with Peter Weilder, president of Transredes. Regarding the status of his company's request pending before the GOB for the necessary legal approvals to proceed with the project, Bolivian law requires that the executive submit a law to Congress for its approval for any pipeline which crosses the zone 50 kilometers within the national border. The GOB has yet to submit the law for the Congress' consideration. Weilder says that he has been assured by both the president and the vice president that the project has their full support. But these promises have yet to be translated into action. He says that the president explained that he must first generate political support within the multi-party coalition which he heads before he can submit it to the Congress. Weilder believes that the GOB has yet to develop this necessary consensus within the coalition and cannot predict when this might occur.

Lannon
BT

#4936

E205

NNNN
OF UNDERSTANDING WITH THE INFRASTRUCTURE MINISTRY COVERING TWO PROJECT DEVELOPMENT AREAS:

--A HIGH VOLTAGE TRANSMISSION LINE TO RUN FROM THE IRKUTSK REGION OF CENTRAL SIBERIA TO NORTHERN CHINA (BEIJING). UNDER THE TERMS OF THE MOU, ENRON WILL AGREE TO THE CONSTRUCTION OF POWER PLANTS TO FEED THE LINE. THE TRANSMISSION LINE WOULD BE 400KM IN LENGTH AND ONCE COMPLETE, THE PROJECT IS EXPECTED TO REPRESENT AN INVESTMENT OF $1.5 BILLION, OF WHICH ENRON WILL INVEST $750 MILLION.

--A REVIEW OF OPTIONS AND ECONOMIC FEASIBILITY RELATING TO HYDROPOWER DEVELOPMENT, FOCUSING ON THE DEVELOPMENT OF THE ORKHON DUGAN RIVER. UNDER THE TERMS OF THE MOU, ENRON WILL PROVIDE A Feasibility study to the government. The study will include the feasibility of power generation facilities and power transmission lines. The study will also include the development of a detailed investment plan for the project.
NEGOTIATE WITH THE RUSSIANS FOR EITHER THE EXPORT OF ELECTRICITY FROM EXISTING POWER PLANTS IN THE IRKUTSK REGION OR THE ACQUISITION OF AN UNFINISHED HYDROPOWER PLANT NORTH OF IRKUTSK. ON THE CHINESE END, ENRON IS DEALING WITH THE NORTH CHINA POWER BUREAU FOR SUPPLY OF THIS ELECTRICITY TO THE BEIJING AREA GRID.

S. (SUB) USIS IS WORKING WITH ENRON HEADQUARTERS AND WITH UNCLAS SECTION B2 OF B1, ULANBATAAR B11411

STATE FOR EAP/CM, E/03A AND ED/IEP

PASS AID FOR ANE-C, DOWNEY AND O/ENV/FEET

USDOC FOR INTL AFFAIRS
USDOC FOR ITA/EAP AND ITA-ENERGY

BEIJING FOR ECON-S, REES AND COMMERCIAL SERVICE-G, ADAMS
E.O. 12958: N/A
TAGS: ENRG ENRG NG
SUBJECT: ENRON SIGNS AGREEMENT WITH GOM ON TRANSMISSION LINE AND HYDROPOWER PROJECTS

REF: ULANBATAAR B031

THE GOM ON THE ISSUANCE OF A PRESS RELEASE. ALSO: A COPY OF THE SIGNED ROD (SUB) IS BEING SENT TO EAP/CM-D, EPSTEIN.

5. (SUB) IN A RELATED DEVELOPMENT, EMBASSY AND U.S. GOV SPONSORED AN ALL-DAY ENERGY ROUNDTABLE ON OCT. 31 HOSTED BY THE AMBASSADOR. THE SEMINAR INCLUDED SENIOR GOV ECONOMIC OFFICIALS, INCLUDING THE ACTING INFRASTRUCTURE MINISTER AND HIS STAFF, THE ENERGY AUTHORITY, KEY PARLIAMENT MEMBERS AND ADVISORS FROM THE PRESIDENT'S OFFICE AND COMM NATIONAL SECURITY COUNCIL. CONDUCTED BY USAID CONSULTANTS WITH EXPERIENCE IN HUNGARY, THE MEETING FOCUSED ON DEVELOPMENT OF AN ENERGY SECTOR STRATEGY, OPTIONS FOR POWER DEVELOPMENT AND PRIVATIZATION, ENERGY PRICING AND ASSET VALUATION; SETTING UP AN INDEPENDENT REGULATORY AUTHORITY; AND CONTENTS OF A NEW ENERGY LAW WITH IPO PROVISIONS. THE ROUNDTABLE MEETING BROKE NEW GROUND WITH TOP OFFICIALS DEALING WITH ENERGY POLICY, INCLUDING THE ENRON AND AES PROJECTS, TOWARD DEVELOPING A CONSENSUS ON A PACKAGE (POWER STRUCTURE, REGULATORY REGIME AND ENERGY LAW TO BE PUT TO PARLIAMENT FOR APPROVAL). FURTHER NEXT SPRING WHEN WORK ON THE U.S. POWER PROJECTS IS EXPECTED TO MATURE. DURING THIS MEETING, THERE WAS A CONSENSUS THAT FOREIGN PRIVATE PARTICIPATION IS ESSENTIAL TO FUTURE DOMESTIC POWER DEVELOPMENT AND THAT A NEW, LESS
3. (C) THE PRIME MINISTER SAID HE -- AND NOT THE WATER RESOURCES MINISTER -- WOULD RESPOND DIRECTLY TO AN EXPRESSION OF INTEREST FROM ENRON IN THE KARNALI HYDROPOWER PROJECT. ([b](1))

NOTE: ENRON IS CLEARING A DRAFT LETTER IN-HOUSE: WE HOPE TO SEE A FINAL VERSION SOON. (END NOTE.)

JAPANESE AID

4. (C) THE PRIME MINISTER ISAID JUST RETURNED FROM AN OFFICIAL VISIT TO JAPAN. UNDERTAKEN, HE SAID, TO "APPEAL" JAPAN'S DECISION TO CUT ITS LEVELS OF BILATERAL AID. ([b](1))

COMMENT: JAPAN IS THE LARGEST BILATERAL AID DONOR TO NEPAL. ITS DECISION TO REDUCE AID. ([b](1)) MUST BE EXTREMELY WORRISING TO NEPAL, WHICH IS COMPLETELY DEPENDENT ON DONOR ASSISTANCE.]

FRANK
BT
#2861
A294
NNNN

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ELECTIONS AND INDIA

2. (C) MEETING WITH THE AMBASSADOR A MONTH AFTER THEIR LAST ONE-ON-ONE MEETING (REF A), NEPAL'S PRIME MINISTER KOIRALA AGAIN SOUGHT U.S. ASSISTANCE IN GETTING VOTER IDENTIFICATION CARDS COMPLETED BEFORE NATIONAL ELECTIONS THAT ARE EXPECTED TO TAKE PLACE IN APRIL OR MAY OF 1995. ([b](1))
2. While both Doga and Trianva are very pleased that the Turkish government resolved the fuel price differential issue, they are concerned that monthly payments from the State Electric Generation Utility (ESAS) for the power their plants generate are increasingly late. [((b)(4)]

The Turkish government is well aware of the problem, but has explained that ESAS is not being paid by other state entities (including the State Distribution Company (IDAS)), which in turn forces ESAS to pay the companies late.

3. The Got has taken some preliminary measures to improve ESAS's revenues over the medium and long term. The most important measure will take place with the new Got budget's decisions, which will begin in October. State enterprises will be required to include more realistic amounts of money in their budgets to pay expected energy bills. In July, the government also announced that customers consuming more than a basic amount of electricity per month would pay a higher rate. Electricity prices will also continue to increase 2.1 percent per month through the end of the year, in line with Turkey's IMF stabilization program. [((b)(6)]

Told Ecekon on August 18 that he expects these new measures to reduce the delays in ESAS payments to the power producers by the end of October.

4. The Electric producers are also concerned that the Got [((b)(4)]

We will continue to monitor the status of these payments.

Parris
DIT
#5599
DOOF
NNNN
1. GBDU POST HAS DEVELOPED THE FOLLOWING TIMELINE OF DATES THAT WILL HAVE SOME IMPACT ON WHAT APPEARS TO BE AN ALMOST CERTAIN PROLONGED ARBITRATION PROCEEDING. IT PROVIDES A USEFUL CONTEXT FOR MOVES AND COUNTERMOVES TAKING PLACE IN RECENT DAYS. WHEN READING IT, THE DEPARTMENT SHOULD BE AWARE THAT IT IS INFORMAL AND SHOULD NOT BE SEEN AS A LEGAL DOCUMENT.

APRIL 4 -- ENRON/DPIC FILES NOTICE OF "ARBITRATION AND CONSOLIDATION" TO GOI FOR NOT HONORING COUNTER-GUARANTEES ON PAYMENT OF DECEMBER 2000 BILL. NINETY DAYS MUST ELAPSE BEFORE ACTUAL ARBITRATION CAN BEGIN.

APRIL 7 -- ENRON/DPIC ISSUES NOTICE OF "POLITICAL FORCE MAJEURE" TO COM. FOR HAVING TAKEN ACTIONS "WHICH HAVEN'T OR ARE LIKELY TO HAVE A MATERIAL AND ADVERSE EFFECT UPON THE PERFORMANCE OF DPC'S OBLIGATIONS UNDER THE PPA".

APRIL 10 -- ENRON/DPIC INVIKES THE "STATE SUPPORT AGREEMENT" AND "SUPPLEMENTAL STATE SUPPORT AGREEMENT" FOR COM'S F. A.L. TO PROVIDE "ALL MEANS OF SUPPORT TO THE PROJECT" AS REQUIRED BY THE PPA.

APRIL 12 -- ENRON/DPIC FILES NOTICE OF ARBITRATION TO COM BASED ON CLAUSES IN THE PPA RELATED TO PENALTIES CHARGED TO DPC. RESPONDENT MUST APPOINT AN ARBITRATOR WITHIN ONE MONTH.

APRIL 23-25 -- LEADERS AND DPC BOARD MEET IN LONDON. LETTERS SENT TO GOI WITH DEMANDS REGARDING PAYMENTS AND GUARANTEES. AUTHORIZATION GIVEN TO ENRON/DPIC INDIA TO ISSUE TERMINATION NOTICE, BUT NO INSTRUCTIONS TO DO SO.

MAY 11 -- GOBIBLE COMMITTEE SCHEDULED TO MEET WITH DPC AND MSEB.

MAY 18 -- LEADERS SCHEDULED TO MEET IN LONDON. PARTIES AGREED TO MEET 23 DAYS AFTER THEIR APRIL 15 MEETING.

JUNE 4 -- BLOCK ONE OF PHASE TWO (148 MW) COMES ON LINE AT DPC.

JULY 3 -- ARBITRATION MUST BEGIN IN LONDON IN RESPONSE TO NOTICE.
OCTOBER -- SECOND BLOCK OF PHASE TWO (748 MW) SCHEDULED TO GO ON LINE AT DPG.

CONFIDENTIAL SECTION OF 02 OF 12 MUMBAI #0726

STATE PASS EXIMBANK FOR ALITA MURRELL/DONNA SCHNEIDER
STATE PASS OPEC FOR LORRA ROBIN AND RUTH ANN RICASTRI
STATE PASS USTR FOR RICK RICICHA
STATE PASS SEC FOR MARISI LAGI
TREASURY FOR GEETHA NAG

USDOC FOR 1131/010/ANNISA/KBRENNAN
USDOC FOR 1530/MAC/OSIO/18ERM
USDOC FOR 1530/MAC/OSIO/18ARDING

E.O. 12566: DEC.: 08/07/2011
TAGS: ENRG; EFIM; ECOM; IN
SUBJECT: MAY 11 MEETING WILL BE INCLUSIVE FOR ENRON/DPC; TERMINATION LILY TO FOLLOW
REF: 13 MUMBAI 78; 14 MUMBAI 685 AND PREVIOUS

[(b)(1), (b)(4)]
LAGOS 527

From: AMBASSADOR LAGOS
Subject: CON STARTING TO GET WITH THE ECON PROGRAM

Date/Time: 16/05/27 FEB 00
Precedence: IMMEDIATE

INFO LO5-00 NP-00 AID-00 CEA-01 CIA-00 COME-00 CTME-00
INL-03 DGDE-00 DRP-00 DO-00 EB-05 EXIM-01 G-00
FRR-00 H-01 TED-00 IMR-00 ITC-03 L-00 AC-01
NSA-00 NSCE-00 OMC-01 CPIC-01 PA-01 PH-00 PRS-00
ACS-00 P-03 SP-00 IRN-00 STR-00 USIE-00 PMD-00
PMX-00 DSCC-00 DRL-02 G-00 NFO-00 SAS-00 /010W

CONFIDENTIAL SECTION 01 OF 05 LAGOS 506827

E.O. 12958: DECL: 02/15/10
TAGS: PDOV, ECON, EF, EC
SUBJECT: CON STARTING TO GET WITH THE ECON PROGRAM

REF: A) 99 LAGOS 10666 B) LAGOS 0492
LAGOS 01 OF 05 527

CLASSIFIED BY ECON CHIEF MCCULLOUGH, REASONS PARA 1.5 B AND D.

[(b)(1)]

CONFIDENTIAL

005000000000601
PRIVATE INFORMATION; OASISCO IS GETTING IT

[(b)(1)]
CONFIDENTIAL

Finally got the ball rolling: After doing almost nothing for five months on the first round of privatizations promised for the end of 1999, the Obasanjo administration in December launched a push to reappoint privatization advisers and draw up bid documents. Not coincidentally, this occurred just after Vice President Atiku brought in Nasir El-Rufai to be Director General of the Bureau of Public Enterprises (BPE), the implementation body for the National Council of Privatization headed by the Vice President.

LAGOS 91 OF 05 527

--- MAPCO: [(b)(1)]

--- COBA went to court to stop the sale (the case was subsequently settled), [(b)(1)]

--- FSB International Bank: Another well-regarded entity, this bank is run by Muhammad Hayatu-Deen, a prominent Northerner. [(b)(1)]

CONFIDENTIAL 3

005000000000603
[(b)(1)]

... NOLCHEN [DOWNSRTE PETROLEUM]: EFFORTS TO PERSUADE SHELL TO RAISE ITS EXISTING EQUITY TO BECOME THE CORE INVESTOR/OPERATOR FOURED. AFTER SHELL REFUSED TO PROMISE NOT TO RESELL ITS SHARES FOR AT LEAST TWO YEARS, THERE WAS NO OTHER BIDDER FOR NOLCHEN AFTER SHELL DROPPED OUT, SO BIDDING HAS BEEN READVERTISED. [(b)(1)]

3. (C) THE NIGERIANS ARE LEARNING THAT IT IS ONE THING FOR EXISTING EQUITY HOLDERS TO EXPAND THEIR INVESTMENTS IN ALREADY VIABLE ENTERPRISES. HOWEVER, IT IS APPARENTLY STILL A BRIDGE TOO FAR FOR FOREIGN INVESTORS WITHOUT PRIOR NIGERIAN EXPOSURE TO TAKE THE PLUNGE. THE GSM SUSPENDED SOME TELECOM AND OFFSHORE OIL LICENSES IN PART TO GET RID OF NON-PERFORMING OR OTHERWISE MARGINAL NIGERIAN COMPANIES, BUT THEIR AIM OF ATTRACTING THE INTERNATIONAL BIG BOYS HAS FOURED. AT LEAST IN TELECOMS. IN THE CURRENT GSM CELL PHONE LICENSING ROUND, THE SEVEN FIRMS SHORT-LISTED FOR THE FOUR LICENSES INCLUDE ONLY ONE FOREIGN BIDDER, MTN. A SECONDARY SOUTH AFRICAN PROVIDER; THE OTHERS ARE ESSENTIALLY LOCAL.

4. (C) BPE APPEARS TO UNDERSTAND AND PLACE A PREMIUM ON THE NEED FOR A STRONG REGULATORY AND LEGAL FRAMEWORBEFORE STARTING THE PRIVATIZATION OF REGULATED BUSINESSES. [(b)(1)] BPE IS ARGUING THAT THE GSM LICENSING PROCESS SHOULD BE SUSPENDED AND DEFERRED, BUT EVEN IF THE OTHER FIRM IN THE CONTRACT, THOUGH OTHER FACTORS IN THIS COMPLICATED ISSUE ARE ALSO INVOLVED -- REF B.)

[(b)(1)]
CONFIDENTIAL

LAGOS 03 OF 05 517

[[(b)(1)]]

CORRUPTION: STILL ROTTEN AROUND THE CORE

[[(b)(1)]]
CONFIDENTIAL

[(b)(1)]

13. (c) The probe of the troubled and now shut-down NAPCON fertilizer factory has been exceptionally lively, compelling top managers and supervisory ministers to make some startling statements. The recently sacked managing director admitted that he had falsified invoices to benefit a firm tied to his wife. He also alleged that the Abacha regime directed NAPCON to divert the naira equivalent of USD 100,000 to the Obasanjo presidential campaign. (On February 14, Obasanjo publicly denied receiving NAPCON funds.) A former minister declared that NAPCON's only hope for resurrection is to bring back expatriate management. [(b)(1)]

=================================================================
SUBSIDIES: PRACTICE SETS THE BETTER OF PRINCIPLE
=================================================================
LAGOS 04 OF 05 527

12. (SRU) Taking their lead from Obasanjo, in 1999 the

CONFIDENTIAL

6
CONFIDENTIAL

JOHN VIGOROUSLY DEFENDED THE MORALITY AND ECONOMIC UTILITY OF SUBSIDIES THAT QUOTE HELP PEOPLE UNQUOTE. THEREFORE, OBASANJO’S ANNOUNCEMENT IN HIS DECEMBER BUDGET SPEECH THAT HE WAS Deregulating DOWNSTREAM PETROLEUM PRICES WITH QUOTE instantaneous EFFECT QUOTE was, IN THE EYES OF MANY OBSERVERS, HIS BIGGEST ECON SURPRISE SINCE TAKING OFFICE. LABOR AND NATIONAL ASSEMBLY MEMBERS RAISED AGAINST ANY PRICE INCREASE, BUT SOME SORT OF PRICE HIKE SEEMS INEVITABLE. PERHAPS AS PART OF A DEAL WITH LABOR ON RAISING THE MINIMUM WAGE, OBASANJO’S MOVING TO BOOST PRICES STEMMED IN PART FROM THE ABSENCE OF IMF PRESSURE TO END THE SUBSIDY. ONE MOTIVATION MAY HAVE BEEN TO ENHANCE THE PRIVATIZATION PROSPECTS OF THE DOWNSTREAM FIRMS WHICH WE NOW HAVE REASON TO BELIEVE OBASANJO WAS THEN COMMITTING TO PURSUE.

13. (C) PERHAPS EVEN MORE STARTLING WAS THE FEBRUARY 12 PRESS REPORT THAT GOV. SPOKESMAN SARUMI HAD CONFIRMED WHAT OFFICIALS HAD BEEN PRIVATELY PROMISING FOR MONTHS: THE FY2000 BUDGET WOULD CONTAIN NO MONEY FOR FERTILIZER SUBSIDIES. ONE OF THE ARGUMENTS USED TO SOUTHEL THE FERTILIZER CONTRACT (AT LEAST ITS ORIGINAL VERSION) WAS THAT IT WOULD COST THE GOVERNMENT TOO MUCH IN PRICE SUBSIDIES, COMBINED WITH THE LONG-OVERDUE ABOLITION IN JANUARY OF THREE INEFFECTIVE, STATIST AGRICULTURAL PARASTATALS. OBASANJO MAY BE TAKING A MORE MARKET-ORIENTED APPROACH TO WHAT HE THOUGHT CORRECTLY IDENTIFIED AS NIGERIA’S MOST IMPORTANT SOCIO-ECONOMIC SECTOR.

OLD HABITS IN THE NEW NIGERIA

[(b)(1)]
CONFIDENTIAL

B) FOREIGN DEBT/LOOTED FUNDS FIXATION: DESPITE THE WINDFALL FROM SURGING OIL PRICES, OBASANJO REMAINS FIXATED ON FOREIGN DEBT RELIEF, LARGELY AS A POLITICAL CONCERN. RAISING IT WITH VIRTUALLY EVERY INTERNATIONAL AUDIENCE, HE SHARES THE WIDESPREAD NIGERIAN VIEW THAT MOST IF NOT ALL OF THE DEBT IS ILLEGAL AS IT WAS INCURRED BY MILITARY GOVERNMENTS WHO PUT PROFIT ABOVE ECONOMIC SUBSTANCE, AND NIGERIA IS A POOR COUNTRY THAT HAS ALREADY OUTRIGHTLY PAID BACK THE PRINCIPAL MANY TIMES OVER. [(b)(1)]

[(b)(1)]
NOW THE CONG WOULD USE WINDFALL REVENUE IS A GOOD BUT
VERY OPEN QUESTION. OVERALL CONG SPENDING, ESPECIALLY ON
SOCIAL MATTERS, REMAINS CONstrained, AND THE ECONOMY HAS
YET TO SEE THE EXTRA OIL MONEY. THE CONG HAS MADE SOME
BIG PROMISES, SUCH AS 10,000 NEW JOBS IN EACH OF THE 16
STATES. JOB CREATION, IF THE NIGER DELTA AND ELSEWHERE,
IS VITAL AND COULD FOCUS ON LABOR-INTENSIVE
INFRASTRUCTURE RECONSTRUCTION. HOWEVER, ANOTHER
IMPORTANT WILD CARD IS THE FINAL OUTCOME OF THE NEW
BUDGET NOW BEING WRANGLED OVER BY THE NATIONAL ASSEMBLY
AND THE EXECUTIVE BRANCH. IN OLD AND NEW DEMOCRACIES
ALIKE, BUDGET BALLS ARE SOMETIMES DROPPED.

TWADDELL
NNNN

End Cable Text

Printed By: Alex Martschenko 02/10/2000 07:49:39 AM
(b)(1), (b)(4)

5. (SB). Enron viewed the World Bank's second category of objections, legal and fiscal concerns based on an earlier version of the agreement, as obviated by the final deal.

6. ![Image of page with text](image_url)
IMMEDIATE

DEPT TREASURY COMCEN
PH 622-2222 RM 1121/MT

THAT THIS SITUATION COULD UNRAVEL TO THE POINT WHERE IT
WORLD SEND A DAMAGING NEGATIVE SIGNAL TO THE
INTERNATIONAL BUSINESS COMMUNITY ABOUT THE POSSIBILITY OF
DOING BUSINESS IN NIGERIA. IF THE GOVERNMENT DISAVOWS THE
CONFIDENTIAL SECTION 02 OF 02 STATE 03/3767

E.O. 12968: DECL: 03/23/88
TAGS: BIPOLAR EMIRG EINU EFIN ECON PDJO NI
SUBJECT: ENRON - DEMARCHE REQUEST FOR TRIPARTITE MEETING
OF ENRON, WORLD BANK, AND GON

CONTRACT AND ENRON WALKS AWAY. IT ALSO WOULD BE A REAL
BLOW TO OUR EFFORTS TO ENCOURAGE AMERICAN INVESTORS.
ENRON BELIEVES THE BEST WAY FORWARD NOW IS FOR THE GON TO
CONVENE A MEETING OF THE THREE PARTIES INVOLVED

[b](1) , (b)(4)

[b](1)

9. [b] WE HAVE MADE A REQUEST FOR INFORMATION ON A WORLD
BANK DELEGATION VISIT AND WILL E-MAIL POST WITH DETAILS AS
SOON AS THEY ARE KNOWN.

1A. [b] DEPT WOULD APPRECIATE A PROGRESS REPORT FROM THE
EMBASSY,
TALBOTT
B7
H5761
8662
NNNN

CONFIDENTIAL

005000000000611
CONFIDENTIAL

EL-RUFAI, THE DIRECTOR GENERAL OF THE BUREAU OF PUBLIC ENTERPRISES (BPE), THE IMPLEMENTATION BODY OF THE NATIONAL COUNCIL ON PRIVATIZATION LED BY VP ATIKU, NOTING THAT THE MEDIA AND OTHERS HAVE PAINTED EL-RUFAI AND ATIKU AS POLITICAL ALLIES AS WELL AS ETHNIC KINSMEN AS LEADING THE CHARGE AGAINST THE CONTRACT, ASKED EL-RUFAI TO ARTICULATE HIS VIEWS. EL-RUFAI ACCEPTED THE CHALLENGE, THOUGH HE CLAIMED THE CONTRACT WAS IN BIG TROUBLE FOR VARIOUS REASONS BEFORE HE ENTERED THE FRAY. HIS CONCERNS, HE SAID, ARE:

[(b)(1), (b)(4)]

E. O. 12551: DECL: 2/12/83
TAGS: EMB, EVD, EIR, PCW, HI
SUBJECT: NIGERIAN VP UPSET ON ENRON CONTRACT BUT OBSTACLES REMAIN

REF: LAGOS #639 AND PREVIOUS (NOTA)

CLASSIFIED BY ECON CHIEF MCCULLOUGH, REASON PARA 1.5 B.

1. (CI) SUMMARY. VP ATIKU ABUBAKAR ASSURED US THAT PRICING AND OTHER ISSUES HOLDING UP THE ENRON CONTRACT ARE BEING RENEGOTIATED AND WILL BE RESOLVED WITHIN ONE MONTH. OPPOSITION TO THE CONTRACT FROM SEVERAL OTHER FRONTS, HOWEVER, REMAINS STRONG. THE HEAD OF THE BUREAU OF PUBLIC ENTERPRISES OBJECTS:

[(b)(1)]

2. GBDU ON FEBRUARY 11: AMBASSADOR TRAVKELL AND THE REVEREND JESSE JACKSON, VISITING NIGERIA AS THE HEAD OF AN OPERATION/RAINBOW PUSH TRADE DELEGATION, PRESENTED IN A MEETING WITH VICE PRESIDENT ATIKU ABUBAKAR FOR THE RESOLUTION OF THE STALEMATED ENRON CONTRACT REFLECTED IN THE AGREEMENTS OF THE STATEMENT OF THE ENRON CONTRACT. OSAPAMO ASSURED THE AMBASSADOR AND REVEREND JACKSON THAT THE ENRON CONTRACT IS NOT STILLBORN AND WILL BE SUCCESSFULLY RENEGOTIATED IN TWO TO FOUR WEEKS. HE STATED THAT TALKS UNDERWAY BETWEEN NEPA AND ENRON ARE PROGRESSING ON THE ISSUES OF PRICING AND CONTRACT DURATION. PRIME MINISTER IGE, IN A SUBSEQUENT ENCOUNTER, REMARKED TO THE AMBASSADOR THAT GENERAL OPPOSITION TO THE CONTRACT IS EMBARRASING.

3. (CI) ALSO ON FEBRUARY 11: ECON CHIEF MET WITH NASIR
4. (SBU) EL-RUFAI STATED THAT VP ATIKU HAD EVACUATED MEETING WITH ENRON UNTIL THE BPE HAD COMPLETED ITS REVIEW OF THE CONTRACT, BUT THAT THEY WOULD BE PREPARED TO DISCUSS THE ISSUES DURING THEIR UPCOMING VISIT TO WASHINGTON.
PAGE 3

CAVEAT (S) =
HANDLE VIA
ACTION = (TS) BCN (1); IBD (1); IDB (1); INN (1); CIMF (1); GC (1); SEN (-)
UO (1); XAA (1); XLI (1)
CRC = 08BA

PP RUEATR
DE RUEHOS 0418 0390740
ZNR UUUU ZIH
P 007482 FEB 00
FM AMBASSADOR LAGOS
TO RUEHC/SECSTATE WASHDC PRIORITY 0051
INFO RHEBAA/USDCE WASHDC
RUENJU/JUSLO ABUJA 1689
BT
UNCLASS LAGOS 00416

SENSITIVE BUT UNCLASSIFIED -- HANDLE ACCORDINGLY

E.O. 12958: N/A
TAGS: ETC; ECON; PGOV; NL
SUBJECT: ENRON CONTRACT TO BE REVIEWED

REF: LAGOS 0132

1. (SBU) ACCORDING TO LOCAL MEDIA REPORTS, ON FEBRUARY 4
BUREAU OF PUBLIC ENTERPRISE DIRECTOR GENERAL NASIR EL-
RUFFAI SAID THAT THE GON WILL QUOTE REVIEW UNQUOTE
ENRON'S CONTRACT TO GENERATE POWER FROM BARGES IN LAGOS
STATE. THE REVIEW WILL REPORTEDLY BE CONDUCTED BY THE
GON COMMITTEE RECENTLY SET UP TO GUIDE THAT SECTOR
TOWARD PRIVATIZATION.

2. (SBU) COMMENT: IN GON PARLANCE: REVIEWING IS A
NORMAL LENGTHY AND MURKY PROCESS THAT IMPLIES AN
ALLEGATION OF SOME SORT OF MALPRACTICE. BPE'S RUFFAI IS
A KNOWN OPPONENT OF THE ENRON CONTRACT (REFTEL). IF THE
GON IS IN FACT REVIEWING THE ENRON CONTRACT, PROSPECTS
FOR BREAKING THE CONTRACT FREE ANYTIME SOON WOULD SEEM TO
BE RECEDED.

3. (SBU) COMMENT CONTINUED: THE GON'S FOOT DROPPING ON A
SIGNED CONTRACT SENDS NEGATIVE SIGNALS TO FOREIGN
INVESTORS (REFTEL). MOREOVER, IF A COMPANY LIKE ENRON-
REPUTED FOR NAVIGATING TURBULENT THIRD WORLD WATERS;
CANNOT MAKE WORK WHAT IS IN THE MINDS OF SOME; A QUOTE
NO BRAINER UNQUOTE FOR NIGERIA, THEN WHO CAN? ON THE
OTHER HAND, NIGERIAN AND EXPATRIATE BUSINESSMEN ARE
INCREASINGLY VOCAL IN THEIR PRIVATE CRITICISM OF ENRON'S
APPROACH TO NEGOTIATING AND THEN LAUNCHING ITS CONTRACT.
PART OF THE DISCORD STEMS FROM WILDLY VARYING ESTIMATES
OF WHAT THE CONTRACT WILL COST THE GON IN
INCREASED SUBSIDIES, BUT ANOTHER ISSUE SEEMS TO BE
ENRON'S ALLEGIED LEGALISTIC APPROACH TO BUSINESS IN A
HIGHLY POLITICAL AND STILL PERSONALITY-BASED
ENVIRONMENT. AS ONE PERHAPS JEALOUS INVESTMENT BANKER
REMARKED TO US: ENRON SHOULD HAVE SURROUNDED ITSELF WITH
FEWER LAWYERS AND MORE INTERMEDIARIES WELL AND FAVORABLY
KNOWN TO THE RELEVANT MINISTRIES AND PARASTATALS.

TWADDELL
BT 04:16
08BA
NNNN

UNCLASSIFIED

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2. (U) CON AND LAGOS STATE GOVERNMENT OFFICIALS (MOSTLY UNNAMED) CONTINUE TO TRADE ACUSATIONS IN THE MEDIA ABOUT THE MERITS OF THE ENRON CONTRACT AND THE CON'S DECISION TO SUBJECT IT TO A FORMAL REVIEW. THE OPPONENTS, CLAIMING ENDORSEMENT FROM THE WORLD BANK, ARGUE THAT THE CONTRACT WAS NOT COMPETITIVELY BID. IT IS TOO EXPENSIVE AND UNFAIRLY PROTECTS ENRON FROM VARIOUS FINANCIAL CONTINGENCIES.

[(b)(1), (b)(4)]
2. (SB) ON MARCH 18 ENRON VP SEAN LONG AND THREE NIGERIAN COLLEAGUES MET AT THE EMBASSY WITH AMBASSADOR, DCM, AND ECON CHIEF TO RECONFIRM THEIR EFFORTS TO ADVANCE THE STALEMATED ENRON CONTRACT, THE MEETING PICKED UP FROM AN HOUR LONG SESSION THE AMBASSADOR AND LONG HAD THE DAY BEFORE IN ABUJA.

[(b)(1), (b)(4), (b)(5)]

[(b)(1), (b)(4)]
BG LAUNCHES CRASH POWER PROGRAM

1. (D) IN RESPONSE TO INCREASING POWER SHORTAGES ESTIMATED OFFICIALLY AT BETWEEN 200 - 300 MW, UNOFFICIALLY AT TWICE THAT RATE OR MORE, THE GOVERNMENT OF BANGLADESH (BDG) HAS LAUNCHED A "CRASH POWER PROGRAM" TO ADD 588 MEGAWATTS OF NEW GENERATION WITHIN SIX MONTHS AND ANOTHER 588 MW IN SIX MONTHS AFTER THAT. THIS WOULD ADD NEARLY 58 PERCENT TO THE CURRENT POWER GENERATION OF APPROXIMATELY 2088 MW. THE POWER CRISIS IS A GROWING POLITICAL PROBLEM. THE OPPOSITION PARTIES HAVE SEIZED THE ISSUE -- AS WELL AS THE WATER SHORTAGES CAUSED BY THE POWER OUTAGES -- AS RALLYING POINTS IN THEIR POPULAR CAMPAIGN AGAINST THE GOVERNMENT. THE BDG RESPONDED IN MARCH BY SACKING THE TREN-CHAIRMAN OF THE POWER DEVELOPMENT BOARD (PDB) AND APPOINTING A WELL-RESPECTED ENGINEER WITH A "CAN-DO" TRACK RECORD AT THE LOCAL GOVERNMENT AND RURAL DEVELOPMENT MINISTRY. LAST YEAR AT ROUGHLY THE SAME TIME WHEN POWER SHORTAGES WERE PARTICULARLY ACUTE, THE PRIME MINISTER FIRED HER ENERGY MINISTER AND ASSUMED THE PORTFOLIO WHICH SHE STILL HOLDS.

[(b)(1)]
7. (C) ENRON HAS BEEN TRYING FOR OVER A YEAR TO SELL THE BG ENERGIP POWER--ON AN UNSOLICITED BASIS-- TO MEET THE SUPPLY-DEMAND GAP. WHEN THE CRASH PROGRAM WAS ANNOUNCED, THE BG WAS ABLE TO TAKE THE ENRON PROPOSAL AND WITHOUT ACCEPTING IT, TOUT IT TO THE PUBLIC AS EVIDENCE THAT IT WAS SERIUS ABOUT DOING SOMETHING ABOUT THE POWER SHORTAGE.

((b)(1), (b)(4))

9. (SUB) ((b)(4))

ORDERED WITH PARTNERS EL PASO AND WARTSILA TO BRING A 220 MV POWER BARGE TO BANGLADESH. ((b)(4))

SOME SNIPPETS OF THE "CRASH PROGRAM"

CONFIDENTIAL SECTION 82 OF 83 DAKA 801242

LONDON FOR SUTPHEN
STATE PASS GP1G; EXIM; TDA; USDOC; USAID
E.O. 12855: 05/25/04

((b)(4))
18. (SRD) PRESS REPORTS HAVE STATED THAT SOME OF THE PUBLIC SECTOR POWER PLANTS TO BE BUILT IN THE CRASH PROGRAM COULD POSSIBLY BE ADMINISTERED BY THE DHAKA ELECTRIC SUPPLY AUTHORITY (DESA), THE NOTORIOUSLY CORRUPT AND INEFFICIENT GOVERNMENT DISTRIBUTION COMPANY. IN ADDITION, THE GOVERNMENT-OWNED RURAL ELECTRIFICATION BOARD (RDB) HAS ISSUED A CALL FOR PROPOSALS FROM THE PRIVATE SECTOR TO BUILD BETWEEN 15 TO 16 10 MW PLANTS.

12. (U) BANGLADESH'S DEMAND PEAKS DURING THE EVENING HOURS, WHEN LOADSHEDDING IS HIGHEST. HOWEVER, SOME AREAS ARE RECEIVING LESS POWER THAN THEY NEED THROUGHOUT THE DAY (AS PERSPECTUS, ONLY 15 TO 18 PERCENT OF BANGLADESH'S ESTIMATED 126 MILLION PEOPLE HAVE ACCESS TO ELECTRICITY). APRIL IS THE MONTH WHEN INCREASING LOADSHEDDING BEGINS IN EARNEST. AS PRE-MONSOON HEAT AND THE AIR CONDITIONING NEEDS THAT ACCOMPANY IT, AND SPRING IRRIGATION ELECTRICITY USES MANY OF THE WATER PUMPS FARMERS NEED FOR RICE CROPS TO COMBINE TO PUT AN ALREADY-TENANT SUPPLY/DEMAND BALANCE EVEN FURTHER OUT OF KILRER. IN ADDITION TO THE GENERATION SHORTFALL, POOR TRANSMISSION AND DISTRIBUTION SYSTEMS MAKE THE SITUATION EVEN WORSE. BREAKDOWNS IN TRANSMISSION LINES AND TRANSFORMERS IN THE LAST SEVERAL WEEKS HAVE CAUSED HAVOC THAN USUAL LOADSHEDDING IN THE CAPITAL OF DHAKA AND ELSEWHERE.

IMPLICATIONS FOR U.S. POLICY

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[(b)(1)]
PP RUETERS
RE: Bangladesh Gas and Power Sectors

DEPARTMENT OF THE TREASURY
PH 622-2222
RM 1121/MT

SUMMARY

1. (SBU) BANGLADESH'S GAS AND POWER SECTORS ARE BECOMING MORE ACTIVE AGAIN, ALTHOUGH NOT FOR ALL U.S. COMPANIES. IN GAS, OCCIDENTAL P ETROLEUM EXPECTS TO RECEIVE FORMAL APPRAISAL ON NOVEMBER 25 FOR AN EXTENSION OF ITS SECOND WORK PROGRAM IN BLOCKS 13 AND 14. AFTER MANY MONTHS OF DELAYS, CVX REMAINS ON SCHEDULE TO DELIVER 100 MMCFD OF GAS TO THE GOVERNMENT BY JANUARY. THE OTHER INTERNATIONAL PRODUCERS OF GAS, THE SANU DEVELOPMENT TEAM OF SHELL/CHAIR/HALLIBURTON, COULD SOON INCREASE DELIVERY OF THEIR OFFSHORE GAS TO 180 MMCFD FROM THE CURRENT 60 MMCFD THEY HAVE BEEN DELIVERING SINCE JUNE, TWO OTHER U.S. COMPANIES HOPE TO BEGIN EXPLORATORY DRILLING FOR GAS IN 1999. ON THE OTHER HAND, FOCUS REMAINS ON THE REMAINING GAS EXPLORATION RIGHTS. NO INVITATIONS TO WINNERS ANNOUNCED IN JULY HAVE YET BEEN MADE TO START NEGOTIATIONS. THE LACK OF ACTION EXTENDS TO THE AWAY OF KEY BLOCKS 1, 1B AND 11, WHICH REMAIN IN LIMBO, TO THE CHAGRI OF INTERESTED GIANTS IN SHALOM/TEGCO/MOBIL AND SHELL. UNCLAS.

UNCLASSIFIED

2. (SBU) IN THE POWER SECTOR, THE U.S. GOVERNMENT HAS PROPOSED A 150 MW POWER PLANT ON THE MEHINAGAR PROJECT, WHICH IS EXPECTED TO BE FINANCED THROUGH A MIX OF INTERNATIONAL AND PRIVATE CAPITAL. THE PROJECT IS DESIGNED TO PROVIDE ELECTRICITY TO THE WESTERN PARTS OF THE COUNTRY. UNCLAS.

UNCLASSIFIED

3. (SBU) FINANCE AND PROVIDE POLITICAL RISK INSURANCE TO ONE 110 MW BARGE PROJECT INVOLVING THE ACQUISITION OF AN UNDERWATER TRANSMISSION LINE. THE PROJECT IS BEING DEVELOPED UNDER THE GUIDANCE OF THE BANGLADESHI GOVERNMENT AND IS FORESEEN TO BEGIN OPERATIONS IN 2001. UNCLAS.

UNCLASSIFIED

E.O. 12958: 11/14/83
TAGS: ECON ECONOMIC SECURITY TRADE
SUBJECT: DWI, GAS, FACE, MEHINAGAR, SHALOM, TEGCO
REF: DHAKA 1597

1. (SBU) THIS MATERIAL SHOULD BE CONSIDERED CONFIDENTIAL AND SHOULD NOT BE SHARED WITH PRIVATE COMPANIES.

UNCLASSIFIED

005000000000709
IN THE MEANTIME, HAS MADE AN UNOFFICIAL PITCH TO PROVIDE .68 MW OF EMERGENCY POWER, WHICH THE BIG IS CONSIDERING. THE CONSORTIUM MAJORITY OWNED BY COASTAL... ENERGY OF HOUSTON WHICH NOW OWNS AND OPERATES BANGLADESH’S FIRST OPERATING PRIVATE POWER PLANT, A 118 MW BARGE IN KHALISA, HAS AN AGREEMENT WITH THE BIG TO BUILD A NEARLY IDENTICAL BARGE 36 MILES UPSTREAM.

UNCLASS SECTION 82 OF 81 DHARA 083490

SENSITIVE BUT UNCLASSIFIED

STATE FOR S/PAB, EB/ESC, AND INR/SAS/OSA
STATE PASS EXIMBANX, OPIC AND ITA
USDOC FOR 453B 119/ANESA/OSA, 6346 ADVOCACY CENTER
DEPT OF ENERGY FOR TOM CUTLER
TREASURY FOR OASIA
LONDON FOR SUTHERN
DUBLIN FOR ENERGY OFFICER
MANILA FOR USEB ADB AND SDB BARNES

E.O. 11956: 11/24/83
TAGS: EPE, ENRG, ECON, DG
SUBJECT: BANGLADESH ENERGY SECTOR UPDATE

4. ISBU, GIVEN THE RELATIVE DOMINANCE OF THE ENERGY AND GAS SECTORS BY U.S. COMPANIES, THERE SHOULD BE GREAT CARE FOR PROPOSED COOPERATION BETWEEN THE U.S. DEPARTMENT OF ENERGY AND THE BANGLADESH MINISTRY OF ENERGY. WHETHER IT BE IN GAS, POWER OR PIPELINE REGULATION, ENVIRONMENTAL ASSESSMENT, ALTERNATIVE ENERGY, PITCHING OR OTHER AREAS. COMPANIES AND THE BIG NOW NEED TO IMPROVE THEIR OFTEN-STRAINED RELATIONSHIP. AND TO WORK TOGETHER TO FUTURE HOW BOTH CAN BENEFIT FROM ENERGY DEVELOPMENT IN THIS POTENTIALLY GAS-RICH BIGHT POLICY-POOR COUNTRY. HELPING IMPROVE THINGS WILL BE A DA-FUNDED STRATEGIC SOCIAL ADVISORY PROGRAM TO DETERMINE THE CONFINES OF ITS BIGHA IRA FIELD IN BLOCK 12. WHERE THE COMPANY HAS NO CONTRACT TROUBLES. THE BIGHA IRA FIELD IS BELIEVED TO CONTAIN 2.5 TRILLION CUBIC FEET (TCF) OF PROVEN RESERVES. IF SO, ITS GAS WOULD INCREASE THE COUNTRY’S PROVED RESERVES. CURRENTLY AT 13 TCF, BY 25 PERCENT (NOTE: VARIOUS INDUSTRY SOURCES SAY BANGLADESH COULD HAVE BEEN 18 TO 59 TCF OF GAS). IN COMPARISON, PROVEN RESERVES FOR INDONESIA ARE 69 TCF. CANADA 67. PAKISTAN 271. OXY WOULD LIKE TO INCREASE THE SIZE OF THE EXISTING NORTH-SOUTH PIPELINE TO PERMIT MORE OF OXY’S GAS TO FLOW SOUTH TO THE NATIONAL GAS NETWORK. (UNCLASS SECTION 83 OF 81 DHARA 083490)

SENSITIVE BUT UNCLASSIFIED

STATE FOR S/PAB, EB/ESC, AND INR/SAS/OSA
STATE PASS EXIMBANX, OPIC AND ITA
USDOC FOR 453B 119/ANESA/OSA, 6346 ADVOCACY CENTER
DEPT OF ENERGY FOR TOM CUTLER
TREASURY FOR OASIA
LONDON FOR SUTHERN
DUBLIN FOR ENERGY OFFICER
MANILA FOR USEB ADB AND SDB BARNES

E.O. 11956: 11/24/83

GAS SECTOR: SOME PROGRESS FOR CURRENT OPERATORS

OCCIDENTAL PETROLEUM


6. (SUB) DESPITE THE LACK OF A CONTRACT, OXY HAS CONTINUED ITS GAS DEVELOPMENT WORK, AND SO IS ON SCHEDULE TO DELIVER 180 MILLION CUBIC FEET A DAY (MMCFD) -- NEARLY 15 PERCENT OF CURRENT DOMESTIC OUTPUT -- TO THE BIG SOMETIME IN JANUARY FROM THE JALALABAD FIELD, IN BLOCK 13. OXY ALSO HAS STARTED AN APPRAISAL DRILLING AND THREE DIMENSIONAL SEISMIC PROGRAM TO DETERMINE THE CONFINES OF ITS BIGHA IRA FIELD IN BLOCK 12, WHERE THE COMPANY HAS NO CONTRACT TROUBLES. THE BIGHA IRA FIELD IS BELIEVED TO CONTAIN 2.5 TRILLION CUBIC FEET (TCF) OF PROVEN RESERVES. IF SO, ITS GAS WOULD INCREASE THE COUNTRY’S PROVED RESERVES. CURRENTLY AT 13 TCF, BY 25 PERCENT. VARIOUS INDUSTRY SOURCES SAY BANGLADESH COULD HAVE BEEN 18 TO 59 TCF OF GAS. IN COMPARISON, PROVEN RESERVES FOR INDONESIA ARE 69 TCF. CANADA 67. PAKISTAN 271. OXY WOULD LIKE TO INCREASE THE Size OF THE EXISTING NORTH-SOUTH PIPELINE TO PERMIT MORE OF OXY’S GAS TO FLOW SOUTH TO THE NATIONAL GAS NETWORK. (UNCLASS SECTION 83 OF 81 DHARA 083490)

SENSITIVE BUT UNCLASSIFIED

STATE FOR S/PAB, EB/ESC, AND INR/SAS/OSA
STATE PASS EXIMBANX, OPIC AND ITA
USDOC FOR 453B 119/ANESA/OSA, 6346 ADVOCACY CENTER
DEPT OF ENERGY FOR TOM CUTLER
TREASURY FOR OASIA
LONDON FOR SUTHERN
DUBLIN FOR ENERGY OFFICER
MANILA FOR USEB ADB AND SDB BARNES

E.O. 11956: 11/24/83

UNCLASSIFIED
GRID: It has made a proposal to build the line and recover the costs from increased gas production. But it appears the BDC will call for a tender instead.

HALL/BURTON/Shelley/Cafrum's Sango field: Production may go up, but cost recovery differences remain.

1. SGCU: The Sango 6 project, 18 kilometers offshore from Chattagong in Block 16, has been delivering 60 MMSCFD of gas to the BDC since mid-June 1998. Recent statements by BDC energy officials indicate the government may be ready to purchase an additional 40 MMSCFD of gas in the coming weeks, likely spurred by falling production in the BGC's own Bakirabad field and by anticipated increased demand for gas to fuel a new BGC power plant and a non-shuttered SGCU fertilizer plant. Sango's offshore gas is more expensive than onshore gas; however, due to special compensation for off-shore costs in the production sharing contract (PSC) Cafrum signed with the BGC, the consortium can begin its "take or pay" contract once the 188-day run-in period ends in December 1998. Under the terms of the contract, Bangladesh must either take delivery of 164 MMSCFD of gas or pay the company for 80 percent of that amount. Consortium officials have asked the BGC to meet with them in mid-November to negotiate gas deliveries and to fix the start of the take or pay period. On the back burner for now: The consortium and the BGC still have a USD 80.5 million difference to resolve. Petrobangla has disallowed that amount from the cost of the SGCU development, production well, pipeline and gas processing plants.

2. (SGCU) Cafrum, which now has a 50/50 partnership with Shell on the rest of Blocks 15/16 (Cafrum remains the operator), suffered a setback earlier in the summer when a removed large gas find offshore, named Balga, was dry. Its stock price plunged; shortly thereafter, Shell increased its ownership to 50 percent. Cafrum, Shell and Unocal, formerly bitter rivals for Block 16 in the second BID round below, recently reached an understanding whereby Unocal will no longer contest Block 16 and will not seek to detail or undercut Unocal on its proposed western region integrated project (WRIP). Below.

OKLAND/UNC

5. (SGCU) The two other U.S. companies with existing PSCs, Oakland Oil of Oklahoma (blocks 17 and 18) and United Meridian International (Block 22), which earlier in the year merged with Ocean Energy (U.S.), hope to drill their first exploratory wells in 1999. After having performed seismic work this year, OKC and has an agreement to sell approximately 75 percent of its interest in its two blocks to Tullow of Ireland. The deal will need the approval of the BGC, however, and may not be automatic, given Tullow's involvement in the second BID round below. Tullow, meanwhile, was slowed to some degree by ownership concerns, now resolved, by logistical difficulties of seismic work in the difficult terrain of the Chattagong Hill Tracts and by a temporary political power vacuum created at the end of a tribal insurgency in the area. Both companies unclass section 84 of B DHA 200418

SENSITIVE BUT UNCLASSIFIED

STATE FOR 6/2/PAC: EB/ESC; AND IN/SA/SA
STATE PASS EKIMBANK; OPIC and TDA
USDOC FOR 4538 ITA/INIA/OSA; EBBB ADVOCACY CENTER
DEP OF ENERGY FOR TOM CUTLER; TREASURY FOR CASIA
LONDON FOR SUPHER
DUBLIN FOR ENERGY OFFICER
MANILA FOR USED JOE AND SCRD BAINES

C.O. 12505: 11/24/63
TAGS: ETF; EKIM; ECO; BG
SUBJECT: BANGLADESH: ENERGY SECTOR UPDATE

SENSITIVE

HAVE PURPOSELY MAINTAINED A LOW PROFILE AND TO DATE HAVE MOSTLY AVOIDED PROBLEMS WITH PERIBANGLA. THE STATE-OWNED OIL AND GAS COMPANY. OF COURSE, NEITHER COMPANY HAS YET TO SPEND SIGNIFICANT AMOUNTS OF MONEY. THE COMPANIES BELIEVE THEIR BLOCKS CONTAIN VERY GOOD POSSIBILITIES FOR SIGNIFICANT GAS DISCOVERIES; UNITED MERIDIAN BELIEVES BLOCK 22 COULD ALSO YIELD SOME OIL.

SECOND BID ROUND: PROMISES; PROMISES

10. (SGCU) Although the BGC announced in July some of the winners of Bangladash's second bid round for the exploration rights to remaining blocks, the government has yet to invite the winners to negotiate PSC's. Although the BGC has formed a new negotiating committee, the BGC appears overly confident it can negotiate new PSC's in a hurry. While the energy secretary said negotiations for all five PSC's should be completed

UNCLASSIFIED
"DONE IN A DAY." INDUSTRY INSIDERS SAY THE MODEL FSC HAS SERIOUS FLAWS WHICH PRECLUDE A QUICK NEGOTIATION.

THE BOG SEEMINGLY HAS NOT YET INTERNALLY DECIDED WHAT THE PSIS WILL INCLUDE. A FURTHER COMPLICATION IS THAT SOME OF THE SELECTED COMPANIES HAVE HAD PROBLEMS SINCE THE AWARDS WERE ANNOUNCED. FOR EXAMPLE, IRWAN WAS TO OPERATE IN BLOCK 7 WITH UNOCAL AS A PARTNER HAS TO SELL OFF ITS ASSETS WHICH UNOCAL WILL LIKELY PURCHASE; TINTA PARAGIL HAS ITS PARTNERSHIP WITH ON OF THE AUSTRALIAN COMPANIES PULLED OUT. OFFSETTING THOSE PROBLEMS WAS THE BOG'S ANNOUNCEMENT THAT IT HAD OVERCOME SOME CONTENTIOUS ISSUES AND WAS ABLE TO AWAY OFFSHORE BLOCKS 15 AND 20 TO THEKHS OF DENMARK.

BIG BLOCKS STILL UNDECIDED

11. (SBU) BLOCKS 9, 10 AND 11, THOSE MOST SOUGHT AFTER IN THE SECOND BID ROUND BECAUSE THEY ARE CLOSEST TO MARKET AND HAVE MORE KNOWN GAS POSSIBILITIES, ARE STILL UNDECIDED. DESPITE AN UNDERSTANDING AMONG SHELL, CAIRN ENERGY AND UNOCAL, WHERE UNOCAL WOULD TACITLY GIVE BLOCK 18 TO SHELL/CAIRN, NO OFFICIAL APPROVAL OR AWARD HAS BEEN MADE. BLOCKS 9 AND 11 ARE STILL GUMMED UP BY THE BOG'S INABILITY TO EITHER AWARD THE BLOCKS TO THE TOP BIDDER, TINTA PARAGIL OF IRELAND, OR INDOSE TULLOH TO ACCEPT THE TERMS PROPOSED BY CHEVRON/TEAAX/ IN BLOCK 9, THE BOG STILL FOLDS OUT HOPE THAT SGOIL AND PETOCORP PARTNER IN A BID ON BLOCK 11 WILL AGREE TO PARTNER WITH TULLOCH. SOMETHING MOSSIL SEEMS UNWILLING TO DO. ONE PROBLEM HOLDING BACK PROGRESS IS THE BOG'S INABILITY TO INVITE COMPANIES FORMALLY TO NEGOTIATE. WHILE THE BOG HAS SENT OUT SEVERAL INFORMAL "FEELERS" TO INDUSTRY, IT HAS NOT COMMUNICATED ANYTHING OFFICIAL SINCE LATE 1997 REGARDING THESE UNDECIDED BLOCKS. SPECULATION OVER MY THE BOG IS UNABLE TO CALL COMPANIES RANGES FROM POLITICAL INVOLVEMENT BY SPECIAL INTERESTS, ALLEGATIONS OF CORRUPTION, OR THE PM'S DESIRE TO ACCOMMODATE AS MANY COMPANIES AS POSSIBLE. WHATSOEVER THE REASON OR REASONS, THE BOG'S INABILITY TO MAKE A DECISION WILL HAVE TO BE WORRIED AS UNDECIDED BLOCKS TUGGLE.

THE PROBLEM WITH GAS EXPORTS TO INDIA

UNCLASSIFIED SECTION B5 OF 88 DHAKA BE349

SENSITIVE BUT UNCLASSIFIED

STATE FOR 3A/MB; EB/ESC; AND INR/SA/ISO

STATE PASS INMBAK, OP1, AND TDA

USDOC FOR 4318 ITA/ANSA/GSA; SBK ADVOCACY CENTER

DEPT OF ENERGY FOR TOM CUTLER

TREASURY FOR GASTA

LONDON FOR SUTHER ET AL.

DUBLIN FOR ENERGY OFFICER

MANILA FOR USED JDI AND 500 BANES

E.O. 12556: 11/24/83

TAGS: EFET; ENRG; ECON; BC

SUBJECT: BANGLADESH: ENERGY SECTOR UPDATE

12. (SBU) THE INTERNATIONAL OIL COMPANIES WANT ACCESS TO INDIA BECAUSE THE EXISTING LARGE MARKET THERE GIVES THEM A WAY TO TURN THE GAS INTO HARD CURRENCY RELATIVELY QUICKLY. BANGLADESH, HOWEVER, IS RELUCTANT TO SELL ITS VITAL NATURAL RESOURCE TO THE INDUS.

EVEN IF IT DOES NOT KNOW HOW MUCH GAS IT HAS AND THEREFORE DOES NOT KNOW HOW MUCH IT CAN SELL, THE BOG INSTEAD HOPES IGC WILL HELP DEVELOP ITS DOMESTIC GAS MARKET, MAINLY POWER PLANTS AND FERTILIZER FACTORIES. WHILE FINANCE MINISTER KIBRIA SAYS THE BOG HAS THE MEANWHILE TO PAY FOR THE GAS COMING FROM OIL AND CAIRN AND THE COMPANY, THE BOG HAS TO GENERATE MORE EXPORTS TO OFFSET ITS FOREIGN EXCHANGE OBLIGATIONS TO THE IGC. HE ADMITS THAT THE GOVERNMENT WOULD NOT BE ABLE TO ASCERTAIN THE COST OF ANY ADDITIONAL GAS PURCHASES FROM THE SECOND BID ROUND. WHILE PRIVATELY THERE HAS BEEN SOME DISCUSSION OF THE BOG'S WILLINGNESS TO HAVE THE FOREIGN COMPANIES SELL GAS DIRECTLY TO INDIA, PAYING THE BOG "COLD CASH" FOR ITS SHARE, THIS VIEW HAS NOT BEEN WIDELY ENDORSED WITHIN THE BOG.

HENCE, THE GREATER PROBLEM WITH GAS EXPORTS TO INDIA IS THE DESTINATION, NOT CONCERNS OVER QUANTITIES OF GAS AVAILABLE. BANGLADESH'S CHEQUERED RELATIONS WITH INDIA MAKE GAS EXPORTS THERE A SIGNIFICANT POLITICAL LIABILITY, ESPECIALLY FOR THE APARTY LEAGUE GOVERNMENT WHICH MUST CONTEND WITH ITS "PRO-INDIA" REPUTATION.

TDA GAS STUDY

13. (SBU) THE BOG HAS SELECTED A CONSULTANT FOR THE USG 186-BID STUDY, FINANCED ENTIRELY BY THE U.S. TRADE AND DEVELOPMENT AGENCY, AND DESIGNED TO SEE HOW THE GAS CAN BE USED DOMESTICALLY AND INTERNATIONALLY TO CREATE WEALTH. ASSUMING ROUTINE APPROVALS ARE GIVEN BY THE MINISTRY OF ENERGY AND TDA AND THAT THE CONSULTANT APPROVES THE CONTRACT, WORK COULD BEGIN SOMEWHERE IN DECEMBER. THE STUDY IS EXPECTED TO TAKE 4 TO 5 MONTHS TO COMPLETE.

THE BOG'S OWN PROBLEMS WITH GAS: FALLING PRODUCTION
14. (SUB) COMPLICATING THE GAS PICTURE IS THE REALITY THAT THE BDC IS FACING FALLING PRODUCTION FROM ITS OWN BANBASBAD GAS FIELDS DUE TO TECHNICAL PROBLEMS. WITH LITTLE OR NO POSSIBILITY TO INCREASE PRODUCTION FROM OTHER FILDS OF ITS OWN (AT LEAST IN THE SHORT TERM), ESPECIALLY GIVEN THE BUDGET CONSTRAINTS WHICH LED THE BDC TO OPEN UP THE SECTOR TO INDUSTRY IN THE FIRST PLACE, THE BDC WILL BE FORCED TO TURN TO GAS FROM THE IOC'S. THAT PRESENTS TWO PROBLEMS FOR THE GOVERNMENT: THE IOC GAS IS MORE EXPENSIVE AT LEAST ON PAPER, BECAUSE THE BDC DOES NOT FULLY REFLECT ALL ITS COSTS, SUCH AS DEPRECIATION; IN ITS FIGURES IT ALSO WILL COST THE COUNTRY FOREIGN CURRENCIES.

15. (SUB) THE GAS PROBLEM HIGHLIGHTS THE DILEMMA FACING THE BDC -- IT DOESN'T HAVE THE INFRASTRUCTURE TO EXLOIT ITS RESOURCES ON ITS OWN, YET ITS INTERNAL PRICING AND COST STRUCTURES ARE SUCH THAT IT CANNOT EASILY AFFORD TO PAY FOREIGN COMPANIES FOR THEIR PRODUCTION UNLESSTHEY ARE CLOSE TO 35 PERCENT. FOR EXAMPLE, BANGLADESH WILL NOT BENEFIT FULLY ON ITS GAS AND POWER. IT NOW SELLS GAS AND POWER AT SUBSIDIZED UNMKS. SECTION 86 OF 88 SHAKA BOARD.

SENSITIVE BUT UNCLASSIFIED
STATE FOR SA/IN/D, ED/ESC, AND INR/SA/SDA
STATE PENTS/EXIMBANK, OPIC AND TDA
USG FOR PSY/PA/AMBAS/USA/500ADVOCACY CENTER
DEPT OF ENERGY FOR TON GUTTER
STAFF FOR EIA
LONDON FOR SUTHER
DUBLIN FOR ENERGY OFFICE
MAYFA FOR USED NDE AND SBC BARNES

E.O. 12556: 11/24/83
TACS: EPE (ENR), ECOM, BC
SUBJECT: BANGLADESH: ENERGY SECTOR UPDATE

PRICES, BUT PAYS MARKET PRICES IN DOLLARS TO IOCS.
NOTE: THE BDC WILL RAISE DOMESTIC GAS PRICES BY 15 PERCENT ON DECEMBER 31. FURTHER CONFUSING THE MATTER IS AN ARGUMENT BEING PUT FORTH BY ENRON WHICH MIGHT TO USE CHEAP GAS TO SELL FERTILIZER TO INDIA THAT THE BDC SHOULD KEEP ITS DOMESTIC GAS PRICE AS LOW AS POSSIBLE TO BUILD AN INDUSTRIAL BASE.

REGIONAL PROJECTS

17. (SUB) ENRON INTERNATIONAL PROPOSED A NORTH BENGAL REGIONAL PROJECT IN THE FALL OF 1996. IT WOULD BRING GAS FROM THE EAST ACROSS THE JAMINA BRIDGE AND BUILD PIPELINES TO THE NORTH TO FEED A FERTILIZER-EXPORT PROJECT (WHICH ENRON WOULD DEVELOP) AND TO THE SOUTH TO FUEL PLANNED POWER PLANTS. IT COULD JOIN THE BDC'S PROPOSED WRIP PIPELINE AT KHALNA. ENRON WILL BE MAKING PRESENTATIONS IN DECEMBER.

POWERT

AES

18. (SUB) AES IS WORKING TO ARRANGE FINANCING FOR ITS 360 MW HARIPUR COMBINED CYCLE GAS PLANT, WHICH IT WAS COMMITTED TO DELIVER 30 MONTHS FROM LAST SEPTEMBER'S CONTRACT SIGNING (CONTINGENT UPON FINANCING). IT CONTINUES TO NEGOTIATE A POWER PURCHASE AGREEMENT (PPA) WITH THE GOVERNMENT'S POWER DEVELOPMENT BOARD (PSDB) ON THE 450 MW NEHERANGAT PROJECT, ALSO COMBINED CYCLE, WHILE BOTH SIDES PLEDGED TO COMPLETE THE NEHERANGAT NEGOTIATIONS BY OCTOBER. EITHER PSDB FOOTNOTING (ACCORDING TO AES) OR AES TACTICS (ACCORDING TO THE BDC) HAS HAD TO KEEP PROGRESS VERY SLOW.
22. (SBU) THE GOVERNMENT'S RURAL ELECTRIFICATION BOARD (REB) WILL SELECT A COMPANY IN MID-NOVEMBER TO BUILD THREE 10 MW POWER PLANTS. SEVERAL U.S. COMPANIES ARE ON THE SHORT LIST. THE REB DESIGNED AFTER THE U.S. RURAL ELECTRIFICATION SYSTEM WILL SELL THE POWER TO ITS CUSTOMERS. THE REB HAS MUCH HIGHER PAYMENTS RECEIVED TO GENERATION PRODUCED RATIOS THAN DO THE OTHER REB POWER COMPANIES.

BOTH SIDES NEED TO TALK

23. (SBU) IT HAS BECOME OBVIOUS TO POST THAT GOVERNMENT AND INDUSTRY PLAYERS NEED TO COMMUNICATE MORE WITH EACH OTHER. COMPANIES REMAIN IN THE DARK AS TO HOW DECISIONS ARE MADE WITHIN THE BUREAUCRACY, AND AS A RESULT THEIR FRUSTRATION LEVEL IS HIGH. EVEN THOUGH THE COMPANIES ACKNOWLEDGE THAT THE BANGALDESHI BUREAUCRACY MOVES FASTER THAN INDIA'S, AT THE SAME TIME, SOME OF THE COMPANIES BELIEVE TOO MUCH ON THEIR LOCAL PARTNERS AND AS A RESULT DO NOT HAVE THE "FACE TIME" WITH BUREAUCRATS NEEDED TO BUILD MORE UNDERSTANDING. ADD TO THE MIX SOME MISSED DEADLINES FROM TWO OF THE BANGALDU POWER SEALS. CNN'S BLOWOUT. SINO'S PERCEIVED COST OVERBIDS. PLUS CONCERNS ABOUT UNCLAS SECTION 83 OF 83 DHAKA 883481

SENSITIVE BUT UNCLASSIFIED

STATE FOR SA/PBG, EB/ES, AND 1HR/SA/SA
STATE PASS EXIMBANK, OPIC AND TDA
USDOC FOR 452B ITA/AGF/SO/A 6988 ADVOCACY CENTER
DEPT OF ENERGY FOR TOM CUTLER
TREASURY FOR OASIA
LONDON FOR STEPHENE
DUBLIN FOR ENERGY OFFICER
MANILA FOR USED ADB AND SCD BARRIES

E.O. 12958: 11/24/93
TAGS: EPET, EMB, ECON, BG
SUBJECT: BANGALDESH: ENERGY SECTOR UPDATE

ABILITY TO PAY AS WELL AS THE POLITICAL DIMENSIONS OF
EXERTS TO INDIA. AND THE BCC’S APPREHENSIONS AND DELAYS ARE AT LEAST UNDERSTANDABLE, IF NOT ENTIRELY EXCUSABLE. THE POTENTIAL TECHNICAL COOPERATION FROM THE USC AND THE ENERGY DYNAMITE SLATED FOR NEXT MONTH IN WASHINGTON SHOULD HELP. THE BCC’S ENERGY SECRETARY WOULD LIKE TO INCREASE COMMUNICATION BETWEEN HIS GOVERNMENT AND THE OPERATORs, AND HAS SCHEDULED MEETINGS HERE, WHICH IS A GOOD SIGN. GIVEN ALL THE INVESTMENT AT STAKE; EASILY BETWEEN USD 1.5 TO 2.8 BILLION JUST FOR U.S. COMPANIES ALONE, BOTH SIDES HAVE PLENTY OF REASONS TO WORK THINGS OUT.

HOLZMAN
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#Z401
O7F5
NNNN
3. (CJ) BANGLADESH HAS POTENTIALLY LARGE GAS RESERVES (GJ TO 30 TRILLION CUBIC FEET) AND HAS INVITED INTERNATIONAL OIL COMPANIES TO HELP DEVELOP THESE RESOURCES. THE COUNTRY ALSO HAS A POWER SHORTAGE OF SEVERAL HUNDRED MEGAWATTS AND HAS FLOATED TENDERS INVITING PRIVATE POWER COMPANIES TO DELIVER GAS-BASED ELECTRICITY UNDER BUILD-OWN-OPERATE (BOO) SCHEMES. MANY U.S. COMPANIES ARE VYING FOR NEW GAS EXPLORATION BLOCKS OR POWER PROJECTS, WHILE THREE U.S. COMPANIES ARE CURRENTLY EXPLORING FOR NATURAL GAS UNDER EXISTING CONTRACTS. *(b)(1)*
5. (c) Currently, eight of the country's 23 gas blocks -- A, B, C, D, E, F, G, and H -- are under contract: Blocks 12, 13, and 14 to Occidental Petroleum (which has a 50/50 partner); DXY is currently the operator; blocks 15 and 16 to a consortium of Cairn Energy (U.K.) and Royal Dutch Shell; blocks 17 and 18 to Okland Oil, a small U.S. exploration company; and block 22 to United Meridian of the U.S. Okland and United Meridian are in the early stages of their work programs and are primarily performing seismic work to help them select where to drill first, which they hope will begin in January 1999. Cairn, Shell and U.S. company Halliburton/Brown and Root have entered into an agreement to develop an offshore gas field in the Bay of Bengal. Delivery of gas from that field, called Sanu, could take place in mid-1998. The three companies have invested approximately $248 million in Sanu. While construction of the well pipeline and processing plant onshore has gone well, the companies have been frustrated.

6. (c) Occidental is having problems with the BDG as well. Largely due to a gas blowout in June 1997 and a gas leak in April 1998 (at separate locations in the region of Sylhet in the northeast of Bangladesh), the blowout and its repercussions kept the company from meeting some contractual obligations under its work program and the application for an extension of its contract has been pending since the first phase expired in January 1998. DXY's woes were compounded in May 1998 when a former contract employee made remarks implying that a good measure of DXY's problems existed because the company failed to pay bribes. The ambassador and other U.S. officials have supported Occidental's bid for an extension.

Any cancellation would likely be fought in the courts by DXY and would have an adverse effect on other IOC's doing business in Bangladesh.

7. (c) Bangladesh does not generate sufficient electricity to meet its needs, with an estimated supply-demand gap of several hundred megawatts. Installed capacity is 2,188 MW, but actual output is approximately 1,398 MW. Demand is roughly at least 2,200 to 2,400 MW with load shedding hindering industry, agriculture and commerce. Only about 15 percent of the country's 127 million people have access to electricity. The country's power development board (PDB) is currently responsible for all generation and most of its transmission and distribution. Service and delivery are poor, however, and non-technical system loss [i.e., theft] is around 35 percent.

8. (c) The sector's problems led the BDG to open the power sector to independent power producers (IPPs) in recent years. The BDG now has several outstanding tenders for gas-powered plants which, when completed, will produce about 1,300 MW. AES (U.S.) is currently negotiating with the BDG on a 360 MW plant to be built, owned and operated by AES and is also awaiting notification to negotiate with the BDG for a 150 MW plant. The BDG has also signed contracts with four companies to buy barge-mounted power for fifteen years; two of the companies, Smith CoGen and New England Power, are from the U.S., and a third, Varia Corporation, is in equity discussions with Coastal Power of Houston, Indiana (U.K., a 50% owned by Cinergy of the U.S.) was the low bidder on a 110 MW gas plant in Western Bangladesh, but has not yet been invited to negotiate. Unocal has proposed to build about 360 MW as part of its Western Region Integrated Project, which would develop the country's only gas field in the west and build pipelines to move gas westward to fuel several small and medium-sized plants. Unocal has not yet been awarded a contract to carry out its project, however, and the BDG is deliberating on how to handle this unsolicited project, which Shell and others have opposed.

9. (c) Gas companies share some concerns about the BDG's ability to pay them for their power: the contracts being negotiated call for IPP's to be paid in dollars, the BDG has realized it could be in serious foreign exchange difficulties if it pays for electricity in
Dollars but receives local currency from domestic customers, unless customers are able to use their electricity to generate exports. While the country has a growing cement export sector, its ability to produce more foreign exchange with more electricity is uncertain (the sector is also hit by load shedding). According to press reports, Bangladesh's payment dilemma is compounded by its system loss, which means the FOB receives only 60 to 65 percent of payments for power produced and by existing price structures which fail to cover true costs of production.

Bureaucratic overload

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[(b)(1)]

TIA Strategic Gas Study

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11. (C) The U.S. Trade and Development Agency has offered to fund a $480,000 strategic gas study to help TIA officials better understand the different options being presented to them by IOCs and IPPs—with a view to maximizing Bangladesh's benefits from its potential natural gas resources. Terms of Reference (TOR) were drafted and given to the TIA in February 1986. The TOR gave the TIA 30 suggested changes to the TOR only in May 31.

Prospects for U.S. Companies

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12. (C) U.S. companies are well-positioned in both gas and power. Three of the four current exploration companies with blocks are U.S.-based, and Occidental's blocks (assuming it keeps them) are considered by many to be the best in the country. Several major U.S. companies—including Chevron, Texaco, Unocal, Mobil, and Conoco—have bid on blocks for the second bid round, and while not all will win, it is likely that some will be successful. In power, AES and Unocal will likely make it to the negotiating table, and the power bidders will probably end up having some U.S. equity. U.S. oil and gas service providers will likely end up servicing the exploration companies. While downstream...
IMMEDIATE

DEPT TREASURY COMCEN
PH 622-2222 RM 1121/MT

NO ONE WOULD NOTICE.** [(b)(4)]

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ENRON IN A PICKLE

9. ID ENRON HAS TAKEN A PARTICULARLY INTERESTING ROLE IN THE RUSE ON THE CAPITALIZATION AS REPORTED RECAST AS THE IPPS HAVE PUT IN LONG HOURS THIS WEEK IN NEGOTIATIONS WITH THE CREP AND IDE ON YET ANOTHER "FINAL" VERSION OF THE SO-CALLED DEFINITIVE MOU. WHICH WILL GUIDE THEIR RELATIONSHIP WITH THE NEW DISTRIBUTION COMPANIES. [(b)(4)]

IPPs

REPRESENTATIVES REPORTED TO ECONOFF THAT THE NEGOTIATIONS FINALLY ENDED AT 1:38 AM ON MAY 13. TWO IPP'S SIGNED AT THAT TIME, WHILE THE REST DECIDED TO SIGN PENDING PERSONAL MEETINGS WITH COE ADMINISTRATOR SEGURA.

[(b)(4)]

11. (SBU) AS NOTED ABOVE, THE LAST OF THE IPPS SIGNED THE DEFINITIVE MOU AT 5:30 PM, A HALF HOUR BEFORE THE CAPITALIZATION CEREMONY WAS TO START. [(b)(4)]

GIVEN THAT SMITH-ENRON WAS ULTIMATELY NOT SUCCESSFUL IN FINALIZING ITS RATIFICATION AGREEMENT THIS WEEK, WHICH WILL IN THE WORDS OF ONE ENRON SOURCE, "ENRON'S ROLE IN THE SEABORD CONSORTIUM WAS HANDLED VERY QUIETLY."

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PAGE 02 OF 03

WELL AS THE DIESEL UNIT IN SABANA DE LA MAR. THESE UNITS HAVE AN INSTALLED CAPACITY OF 573 MW WITH SOME 44 MW BELIEVED TO BE FUNCTIONAL.

THE GAS TURBINES PURCHASED FROM SIEMENS AND GEC-ALTHRON PRIOR TO THE MAY 1998 ELECTIONS ARE INCLUDED IN THE ASSETS DISTRIBUTED TO THE TWO GENERATION COMPANIES AND CONTRIBUTE A SUBSTANTIAL PORTION OF THE VALUE OF THE TWO PACKAGES.

UNCLASSIFIED SECTION 02 OF 03 SANTO DOMINGO 07/27/98

LA PAZ FOR AMBASSADOR RHINAK

SENSITIVE

DEPT PASS EPIC FOR M. PEREIRA AND M. NONHEIMER
USDOC FOR 313/USCS/G/O/M/WOP
USDOC FOR 4321/1A/19/M/WON/NCB/SIEGELMANN

E.O. 12958: **/A

TAGS: ENERGY PREL OR

SUBJECT: COE GENERATION UNITS CAPITALIZED

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WHEN THEY GET IT

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6. (SBU) NO DATE HAS BEEN SET FOR THE FORMAL HAND-OVER OF THE COE GENERATION COMPANIES; ALTHOUGH THE WINNERS ANTICIPATE IT WILL TAKE PLACE IN TWO MONTHS. THE TWO CONSORTIA ARE THEN REQUIRED TO PUT AN ADDITIONAL 188 MW ON-LINE WITHIN 12 MONTHS OF THE TURN OVER. CONSORTIA REPRESENTATIVES COMMENTED TO ECONOFF THAT IT MAY BE FASTER, CHEAPER AND MORE EFFICIENT TO SIMPLY SCRAP SOME OF THE EXISTING UNITS RATHER THAN TRY TO UPGRADE THEM.

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WHETHER COE:

7. (SBU) COE, FOR THE TIME BEING, WILL RETAIN THE NATIONAL TRANSMISSION SYSTEM AND ITS HYDRO GENERATING UNITS. MUCH WORK REMAINS AHEAD IN BREAKING DOWN ITS EXISTING STRUCTURE TO SPIN OFF THE FIVE CAPITALIZED COMPANIES. [(b)(4)]

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8. (SBU) COE CURRENTLY HAS 8,350 EMPLOYEES OF WHOM ONE IPP SOURCE COMMENTS: "YOU COULD FIRE 3,000 TOMORROW AND
SECOND STEP IN CAPITALIZATION

3. (U) THE SECOND STEP IN THE CAPITALIZATION OF COE TOOK PLACE IN A TELEvised MAY 13 CEREMONY. THERE WAS LITTLE DRA MA IN THE PROCEEDINGS AS IT WAS KNOWN IN ADVANCE THAT TWO BIDS HAD BEEN RECEIVED FOR THE TWO COMPANIES. THE REAL DRAMA OF THE DAY TOOK PLACE OFF STAGE WITH THE LAST OF THE IPPS RE-SIGHTING THE DEFINITIVE NOY WITH THE CONCLUSION FOR THE REFORM OF PUBLIC ENTERPRISES ADEPI AND COE A HALF HOUR BEFORE THE PUBLIC CEREMONY WAS TO BEGIN.

THE WINNERS ARE...


WHAT THEY GET

5. (U) THE WINNING BIDDERS ACQUIRE 50 PERCENT OF THE SHARES AND MANAGEMENT CONTROL OF THE TWO NEW GENERATION COMPANIES IN EXCHANGE FOR THE INVESTMENT IN THESE COMPANIES OF THE PLEDGED US$321.2 MILLION. COE'S NON-HYDRO GENERATION ASSETS HAVE BEEN SPLIT BETWEEN THE TWO COMPANIES AS FOLLOWS:

GENERADA RAINA, S.A.: REQUIRES THE FOLLOWING THERMAL GENERATION UNITS - RAINA 1, 2, 3, 4 AND 5; PUERTO PLATA 1 AND 2; BARRIO RONALDO AND SAN PEDRO DE MACORIS. THIS COMPANY WILL ALSO RECEIVE THE GAS TURBINES OF RAINA-
GAS, SAN PEDRO AND BARRIO AS WELL AS THE DIESEL UNITS IN HAITIANNI AND PEDENCALES. THESE UNITS HAVE AN INSTALLED CAPACITY OF 663.3 MW BUT ONLY 246 MW OF 36 PERCENT OF THAT CAPACITY IS NOW FUNCTIONAL.

GENERADA ITABO, S.A.: REQUIRES THE FOLLOWING THERMAL GENERATION UNITS - ITABO 1 AND 2; AND SANTO DOMINGO 5 AND 6. IT WILL ALSO RECEIVE THE GAS TURBINES ITABO 1, 2 AND 37; SAN PEDRO 4 AND 3; AND TIMBEQUE 1 AND 2 AS
ISBD: THE CAPITALIZATION OF CDE SHOULD BE CONSIDERED A REAL SUCCESS FOR PRESIDENT FERNANDEZ AND HIS ADMINISTRATION. WE PLAN TO SEND OUR CONGRATULATIONS TO HIM. ONE EQUALLY DOMINICAN IPP EMPLOYEE CALLED ECONOFF THE MORNING AFTER THE CAPITALIZATION TO ASK, "DO YOU REALIZE THAT WITHIN 18-24 MONTHS, BLACKOUTS MAY BE A THING OF THE PAST?" THIS PRESUPPOSES THAT THE IPPS WILL FOLLOW THROUGH QUICKLY WITH THEIR INVESTMENTS AND THAT CDE ITSELF INJECTS IN SUB-STATIONS AND POWER LINES. THE CDE PROBLEM, HOWEVER, IS ANOTHER STEP CLOSER TO RESOLUTION AND THE DOMINICAN ECONOMY AS A WHOLE WILL BE THE WINNER.

MATT

BY

#3377

ASW2

NRNN
IMMEDIATE

CONFIDENTIAL
DEPT TREASURY COMCEN
PH 622-2222 RM 1121/MT

PAGE 01 OF 02 MD=19817/782485 01/19/15 17/21/12 MD=19817/782485 01/19/15 17/21/12

CAVEAT

HANDLE VIA ACTION = [CPR/SLEPP] [CPI] [ADD] [EPO] [EHS] [JDB] [JDC] [FGB] [FGB]

RCN = FGB

RCQ REPAIRS
OR RUEHIG 4858/22 1072222
ZNY GOCOC ZEN
O 1722222 APR 98
FM AMBASSAD- SANTO DOMINGO
TO RUEHIG/SESTATE WASHDC IMMEDIATE 9741
INFO RUEHIG/AMBASSAD PORT AU PRINCE 9745
BT

CONFIDENTIAL SECTION 01 OF 02 SANTO DOMINGO 381398

E.O. 12958; DECL: 04/16/2003
TASS: CVGR CVOR
SUBJECT: SMITH-ENRON; SECOND MEDIATION SESSION NOT HELD

REF: 8 STATE 65977; B. SANTO DOMINGO 1072

(1) CLASSIFIED BY LINDA E. WATT; CHARGE D'AFFAIRES
A.I.F. REASON: 1.5 (D)

1. (C) SUMMARY: SMITH-ENRON IS CONTEMPLATING ISSUING A SUSPENSION NOTICE TO SHUT THEIR ELECTRIC POWER GENERATING PLANT DOWN BEFORE THE MAY 16 ELECTIONS WHICH COULD HAVE A SERIOUS IMPACT BOTH ON THE ELECTIONS AND THE COMPANY'S LONG-TERM RELATIONSHIP WITH THE FERNANDEZ GOVERNMENT. THE SECOND MEETING IN THE MEDIATION PROCESS SPONSORED BY THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION (SCHEDULED TO TAKE PLACE IN SANTO DOMINGO ON MAY 16) WAS NOT HELD, WHILE CORPORATION DOMINICANA DE ELECTRICIDAD (CODE) HAS ADVISED US THAT SMITH-ENRON IS CONSIDERING ISSUING A SUSPENSION NOTICE TO SHUT THE PLANT DOWN. SMITH-ENRON HAS ADVISED US THAT A SECOND STUNNING BLOW WOULD BE A SCHEDULED POWER OUTAGE. THE COMPANY HAS AN ALARMING NEW TO PLAY AN IMPORTANT ROLE IN THE MEDITATION PROCESS SPONSORED BY THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION. THE NEXT MEETING IS SCHEDULED TO TAKE PLACE IN SANTO DOMINGO ON MAY 16, BUT IT WAS NOT HELD. WHILE CORPORATION DOMINICANA DE ELECTRICIDAD (CODE) HAS ADVISED US THAT SMITH-ENRON IS CONSIDERING ISSUING A SUSPENSION NOTICE TO SHUT THE PLANT DOWN.

2. (C) EMBRACE CALLED ON [((b)(1))]

ON APRIL 15, [(b)(1)] EMBRACE CALLED ON [((b)(1))] THAT SMITH-ENRON HAD ADVISED US THAT A SECOND STUNNING BLOW WOULD BE A SCHEDULED POWER OUTAGE. THE COMPANY HAS AN ALARMING NEW TO PLAY AN IMPORTANT ROLE IN THE MEDITATION PROCESS SPONSORED BY THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION. THE NEXT MEETING IS SCHEDULED TO TAKE PLACE IN SANTO DOMINGO ON MAY 16, BUT IT WAS NOT HELD. WHILE CORPORATION DOMINICANA DE ELECTRICIDAD (CODE) HAS ADVISED US THAT SMITH-ENRON IS CONSIDERING ISSUING A SUSPENSION NOTICE TO SHUT THE PLANT DOWN.

3. (C) SMITH-ENRON, HOWEVER, HAD A DIFFERENT TALE TO TELL:

[[(b)(6)]]

CONTACTED THE EMBASSY ON APRIL 15 TO REQUEST AN URGENT MEETING WITH CHARGÉ, ECO/POL COUNSELOR AND ECONOFF ALSO PARTICIPATED.

[[(b)(4), (b)(6)]]

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NO PAYMENT MADE

[[(b)(6)]]

A PLAINTIFF IN A LOCAL LEGAL ACTION AGAINST SMITH-ENRON [((b)(6))] HAD NOTIFIED ANY COMPANY WITH [((b)(6))] NAME IN THE ACTION. CATCHING SMITH-ENRON IN THE NET. THE JUDGE IN THE CASE MOVES LAST WEEK TO EMBARGO ALL PAYMENTS TO SMITH-ENRON.

[[(b)(4), (b)(6)]]

A SECOND HEARING IN THE CASE WILL BE HELD ON APRIL 20 AND [((b)(6))]:

THE COMPANY BELIEVES IT HAS SUFFICIENT GROUND TO PETITION THE COURT TO REMOVE THE EMBARGO. THIS MAY WELL DRAG OUT, HOWEVER, FURTHER EVACUATING THE FINANCIAL DRAIN ON SMITH-ENRON.
AND YET ANOTHER BLOW

5. CI[(b)(6)] INFORMED CHARGE THAT THE PANEL IN A
SECOND ARBITRATION PROCESS INVOLVING SMITH-ENRON AND A
HOTEL IN PUERTO PLATA MADE AN AWARD IN THAT CASE LAST
WEEK. THE PANEL AWARDED THE PLAINTIFF RD$1.62 MILLION
IN DAMAGES PLUS INTEREST PAYMENTS AND LEGAL FEES. THE
CONFIDENTIAL SECTION 92 OF 92 SANTO DOMINGO 881898

E.O. 12964: DEC; 01/15/2001
TAGS: ENRG, DR
SUBJECT: SMITH-ENRON: SECOND MEDIATION SESSION NOT
HELD

REF: A. STATE 65977; B. SANTO DOMINGO 1872

TOTAL AWARD IS APPROXIMATELY US$20 MILLION. AN ENRON
LEGAL TEAM IS IN SANTO DOMINGO CONSIDERING THE RESPONSE
TO THE AWARD.

NEXT STEPS

[(b)(1), (b)(4), (b)(6)]

IS THUS SEEKING A MEETING WITH THE PRESIDENT AND SAID
HE MAY APPROACH THE EMBASSY TO REQUEST ASSISTANCE IN
PURSUING THE APPOINTMENT. THE CHARGE ASSURED HIM THE
EMBASSY WILL PROVIDE ASSISTANCE.

[(b)(1)]
FURTHER COMPLICATING THE SITUATION, AN INTERNATIONAL ARBITRATION PANEL IN MEXICO HAS NOW HEARD THE SMITH-ENRON COE DISPUTE CENTERING ON ADDITIONAL BACK PAYMENTS WITH A POTENTIAL JUDGMENT, ACCORDING TO [(b)(6)] $41 MILLION DOLLARS (EITHER WAY.)

4. [(b)(1) , (b)(4) , (b)(6)]

5. THE NEXT ROUND OF TALKS, SET FOR APRIL 16 IN SANTO DOMINGO, WILL BE INSTRUCTIVE.
INVOICE AND CONTINUES TO STATE IT WILL ASSESS THE
DISPUTED PENALTIES AGAINST SMITH-ENRON. IT HAS ALSO
PRESENTED SMITH-ENRON WITH A BILL FOR CERTAIN BANK
CHARGES WHICH, IT STATES ARE COMPLETELY OUTSIDE THE
CONTRACT.

3. (C) SMITH-ENRON IS NOW OVER ITS FUEL SUPPLIER, ENRON FUELS
INTERNATIONAL. ON APRIL 7, IT WILL GO OVER THE 180 DAY
PAYMENT PERIOD SPECIFIED IN ITS NEW AGREEMENT WITH THE
IFC.

CDE THREATENS A TAKE-OVER

MISPLACED OPTIMISM

APPEARANCES IN ADVANCE OF THE MEDIATION
[(b)(4), (b)(6)]

(b)(1)
IMMEDIATE

CONFIDENTIAL
DEPT TREASURY COMCEN
PH 622-2222 RM 1121/MT

PAGE 01 OF 02 MID=199824602137 03/21/98 03/21/98

CAIAAT(5)

KANILE VIA
ACTION: [TESS3801 (1), CIU (1), EPO (1), GI (1), ITB (1), ZB (1), LPL (1), IDI (1), FMB (1), INL (1), IFT (1), ITN (1), QMF (1), QC (1), SEN-K (1), VDT (1)]
CRC = 1AEB

00 RUEATRS
01 DE RUEEOC 84381/01 2461846
02 ZNY CCCCC ZHH
03 0120412 SEP 58
04 FM AMBASSAD SANTO DOMINGO
TO DUEIC/SC/STATE WASHOC IMMEDIATE 1138
INFO RUEPAL/AMBASSAD PORT AU PRINCE 1018
RUCJOOC/USDOC WASHOC
BY
CONFIDENTIAL SECTION 01 OF 02 SANTO DOMINGO 094388

USDOC FOR 3134/USCS/010/M10
USDOC FOR 4322/ITN/EPW/OMG/SIEGELMAN
E.O. 11950: DEIL: JV/23/213
TAGS: ERG EMV PREL ER
SUBJECT: SMITH EMV MAKES A DEAL?

REF: SANTO DOMINGO 3553

1. (C) CLASSIFIED BY LINDA E. WATTS CHARGE D'AFFAIRES
REASON: 1.1 (b)

2. (C) SUMMARY: TALKS BROKED BY THE WORLD
BANK/INTERNATIONAL FINANCE CORPORATION (IFC) BETWEEN
THE ENRON CORPORATION AND THE STATE-OWNED CORPORATION
DOMINICANA DE ELECTRICIDAD (CDE) YIELD A PRELIMINARY
MEMORANDUM OF UNDERSTANDING SIGNED ON AUGUST 28. BOTH
SIDES MADE CONCESSIONS: [(b)(1), (b)(4)]

3. (C) SMITH-ENRON [(b)(6)]
INFORMED THE EMBASSY SEPTEMBER 2 THAT A ROUND OF IFC-
BROKED TALKS BETWEEN THE ENRON CORPORATION AND THE
CORPORACION DOMINICANA DE ELECTRICIDAD (CDE) HELD IN
HOUSTON AUGUST 27 AND 28 HAD BEEN SUCCESSFUL. [(b)(4)]

(b)(4)

THE ENRON NEGOTIATING TEAM
WAS LED BY [(b)(6)] ENRON
INTERNATIONAL. CDE'S TEAM WAS LED BY [(b)(6)]

4. (C) WHEN ASKED ABOUT THE STATUS OF THE MEXICO-BASED
ARBITRATION PANEL, [(b)(6)] TOLD THAT ENRON'S
ATTORNEYS HAD INFORMALLY INQUIRED ABOUT THE PROGRESS OF
THE PANEL AND DISCOVERED IT IS LIKELY THE PANEL WILL
ASK FOR AN EXTENSION FROM THE INTERNATIONAL CHAMBER OF
COMMERCE INTERNATIONAL COURT OF ARBITRATION IN PARIS.
[(b)(4)]

ELEMENTS OF THE DEAL

[(b)(1), (b)(4), (b)(6)]
FINANCIAL SETTLEMENT PROPOSAL

[(b)(1), (b)(4)]

COMMENTS

[(b)(1), (b)(6)]

NEXT STEPS

[(b)(1), (b)(4), (b)(6)]
BEGIN TEXT

E 5

BACKGROUND

(b)(1), (b)(4)

USDOC FOR 3134/USFS/01/O/H/RO
USDOC FOR 4322/LOC/3/1/SIGELMAN

E.O. 12568; DECL, 89/89/83
TACS: EMS EINU PREL DR
SUBJECT: AES IN CRISIS YET AGAIN

1. (U) CLASSIFIED BY LINDA E. WATT CHARGE D'AFFAIRES
A.I.1. REASON: 1.5 (O)

2. (O) SUMMARY: AES DOMINICAN POWER PARTNERS (AES DPP)
ISSUED A NOVEMBER 2 SHUT DOWN NOTICE TO THE CORPORACION
DOMINICANA DE ELECTRICIDAD (CDE). THE PLANT WILL BE
TAKEN OFF-LINE FOLLOWING PEAK DEMAND ON NOVEMBER 4 IF A
SUBSTANTIAL PAYMENT IS NOT RECEIVED. [(b)(1), (b)(4)]

END SUMMARY

3. (U) BY LETTER DATED NOVEMBER 2, 1993, AES DPP
GENERAL MANAGER RUBEN SORCETA INVOKED THE 24-HOUR
NOTICE CLAUSE IN THE AES CONTRACT AND INFORMED CDE IT
WILL TAKE THE PLANT OFF-LINE AFTER THE DEMAND PEAK ON
NOVEMBER 4, IF NO PAYMENT IS RECEIVED. [(b)(4)]

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CDE IN CRISIS TOO

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8. (O) IN TERMS OF THE MONIES IT IS (OR RATHER IS NOT)
GENERATING, CDE IS ITSELF AN INSTITUTION IN GREATER

CONFIDENTIAL

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C O N F I D E N T I A L

SECTION 01 OF 02 SANTO DOMINGO 90546

USDAC FOR 3134/US/CS/010/W6/RB
USDAC FOR 4322/IA/EP/WH/OMC/SIEGELMAN

E.O. 12355: DECIL: 09/04/83
TAGS: EMG EICN PREL DR
SUBJECT: AES IN CRISIS YET AGAIN

[(b)(1)]
TO CONTROL TRANSMISSION FUNCTIONS, IMPORTANT QUESTIONS ABOUT THE FUTURE RELATIONSHIP BETWEEN THE PRIMARY U.S.-OWNED INDEPENDENT POWER PRODUCERS (IPPS) AND COE AND THE FUTURE DISTRIBUTION COMPANIES (DISCOs) REMAIN.

CREP LAYS DOWN THE LAW: DEBT TO GO TO COE SUCCESSOR

4. (CI) BY LETTER OF OCTOBER 16, CREP (THE COMMISSION FOR THE REFORM OF PUBLIC SECTOR COMPANIES) CONFIRMED TO THE IPPS ITS INTENTION TO MAINTAIN THE ADMINISTRATION OF PRIVATE PRODUCER CONTRACTS WITHIN COE AFTER THE CAPITALIZATION PROCESS. CREP ALSO INFORMED THE IPPS THAT IT WILL ONLY ACCEPT DEBT AMOUNTS RECONCILED WITH COE FOR TRANSFERRAL TO THE BOOKS OF ITS HYDROPOWER SUCCESSOR. WHILE DEBT RECONCILIATION IS STILL AN IMPORTANT ISSUE (PARTICULARLY FOR AES DOMINICAN POWER PARTNERS), ALL THE IPPS ARE ALSO UNDERSTANDABLY CONCERNED THAT THE CREP'S VISION OF THE COE'S SUCCESSOR'S ABILITY TO ASSURE THEIR LONG-STANDING DEBTS MAY BE BASED ON AN OVERLY ROSY SCENARIO.

5. (CI) WHILE THE CREP DECISION AFFECTS ALL THE IPPS, IT IS OF PARTICULAR INTEREST TO SMITH-ENRON AND AES DPP WHICH HAVE CONTRACT CLAUSES STATING THAT IF COE WERE TO SELL ANY SIGNIFICANT PART OF ITS ASSETS, THEIR CONTRACTS WOULD BE PASSED TO THE BUYER. SMITH-ENRON AND AES MADE THIS ARGUMENT TO THE CREP WHICH RESPONDED WITH A LEGAL DECISION ARGUING THAT THE CAPITALIZATION IS NOT A SALE; THEREFORE THE CONTRACT PROVISIONS DO NOT APPLY. THE IPPS MEET ON OCTOBER 28 TO DISCUSS WHAT ACTION TO TAKE IN RESPONSE TO THE CREP LETTER.

[(b)(1) , (b)(4)]

BACKGROUND

3. (CI) THE OFF-DISCONNECT CAPITALIZATION OF THE DOMINICAN STATE-OWNED POWER COMPANY, CORPORACION DOMINICANA DE ELECTRICIDAD (CODE), IS NOW SET TO MOVE AHEAD IN EARLY DECEMBER. COE'S THERMAL GENERATION AND DISTRIBUTION CAPACITY WILL BE SHIFTED INTO FIVE DIFFERENT COMPANIES (TWO GENERATION AND THREE DISTRIBUTION). COE WILL CONTINUE TO EXIST AS A LEGAL ENTITY OPERATING THE STATE-OWNED HYDROPOWER PLANTS. IT WILL ALSO CONTINUE
USDOC FOR J134/USFCS/010/WN/Rd
USDOC FOR 4321/ITA/TEP/WC/CMCh/SIEGELMAN

E.O. 12596: DEC; 11/31/89
TACS: ENRE E/INV PREL DR
SUBJECT: ELECTRICITY WARS: IPP INTERESTS DIVERGE

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CONCERNS ABOUT THE CAPITALIZATION
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[[(b)(4)]]
1. (C) ALTHOUGH REFTEL A REPORTS ON AES DOMINICAN POWER PARTNER'S PAYMENTS PROBLEMS WITH THE CORPORACION DOMINICANA DE ELECTRICIDAD (CDE), SMITH-ENRON REPORTS A ROISIER PICTURE. [[(b)(4) , (b)(6)]]
SENSITIVE

PAGE 01  MID=199833182174  010054  27/03/1997
CAVEAT (S) =
HANDLE VIA
ACTION = (TRS) BOI (1) GI (1) IBED (1) IDEB (1) IDG (1) IMB (1) INL (1)
ITI (1) OXMP (1) PC (1) SEN (-) UC (1)
CRC = 7F2F

BR RUEATRS
DE RUEHNDG 05824 3312523
ZNR UUUUU ZIH
R 272023Z NOV 98
FM AMBASSADY SANTO DOMINGO
TO RUEMC/SECSTATE WASHDC 2695
INFO RUEHPU/AMBASSY PORT AU PRINCE 1189
RUCPDCC/WASHDC
BT
UNCLAS SANTO DOMINGO 003624

SENSITIVE

SWEPC FOR 3134/USFCS/GIO/WH/RD
SWEPC FOR 4322/ITA/IEF/WH/OMCE/SIEGELMAN

E.0. 12955: N/A
TAGS: ENRG PRD EINV DR
SUBJECT: SMITH-ENRON AGAIN RISKS DEFAULT

REF: A. SANTO DOMINGO 5645

THIS MESSAGE CONTAINS SENSITIVE BUT UNCLASSIFIED
INFORMATION-PROTECT ACCORDINGLY

1. (SBU) ALTHOUGH SMITH-ENRON HAD REPORTED A
SATISFACTORY FLOW OF PAYMENTS FROM THE CORPORACION
DOMINICANA DE ELECTRICIDAD (CDE) IN EARLY NOVEMBER, THE
SITUATION HAS SINCE TAKEN A CHANGE FOR THE WORSE.

[(b)(4), (b)(6)]
AND OTHER CREDITORS. THE PART OF HIS SPEECH THAT GARNERED MOST ATTENTION IN THE DOMINICAN PRESS WAS AN ANNOUNCEMENT THAT 1,880 CDE EMPLOYEES WILL BE LAID OFF IN JANUARY. ALTHOUGH HE EXPLAINED THAT MOST WILL BE REHIRE BY THE CDE SUCCESSOR COMPANY OR RELOCATED ELSEWHERE WITHIN THE PUBLIC SECTOR.

BACKGROUND

4. (b) CDE'S THERMAL GENERATION AND DISTRIBUTION CAPACITY WILL BE SPUN OFF INTO FIVE DIFFERENT COMPANIES (TWO GENERATION AND THREE DISTRIBUTION). CDE WILL CONTINUE TO EXIST AS A LEGAL ENTITY OPERATING THE STATE-OWNED HYDROPOWER PLANTS. NOTWITHSTANDING CLAUSES IN THE CONTRACTS OF ASSOCIATION OTHER PARTNERS AND SMH/EKREN (THE TWIN LARGEST IPPS) THAT IN THE EVENT OF THE SALE OF ITS ASSETS THEIR CONTRACTS WOULD BE PASSED TO THE NEW, CREDIBILITY IN THE IPSS IN OCTOBER THAT THEIR CONTRACTS WILL BE ADMINISTERED THROUGH CDE/HYDRO FOLLOWING CAPITALIZATION. THE CREP PROPOSED THAT THE NEW DISTRIBUTION COMPANIES (DISCOMBIAD PASS) INTO AN ESCRON ACCOUNT FROM WHICH PAYMENTS FOR CURRENT ENERGY SALES AND THE DEBT WILL BE MADE TO THE IPSS. THE CREP SUGGESTED THAT THE DEBT BE PAID OFF OVER 2-3 YEARS.

IPSS NEGOTIATIONS WITH THE GoDR CONTINUE

5. [(b)(4)]

THE IPSS PROVIDED A PROPOSED MODEL OF WHICH HAVE BEEN FED TO ARCS/CAE AND EBT/ES, WHICH WAS TO BE DELIVERED TO THE CREP LATER THE SAME DAY. THE CREP WAS SCHEDULED TO DISCUSS ITS THE NIGHT OF NOVEMBER 26 AND BRIEF PRESIDENT FERNANDEZ ON THE 26TH.

6. (b) THE HIGHLIGHTS OF THE IPSS PROPOSAL INCLUDE:

[(b)(4)]
CONFIDENTIAL
CONFIDENTIAL SECTION 22 OF 27 SANTO DOMINGO 88526

USDOC FOR 3114/USFCS/O10/WI/RD
USDOC FOR 4312/ITA/EP/MB/OMCB/SIEGELMAN

TAGS: EMRG EINV PREL DR
SUBJECT: PRESIDENT SAYS ODE CAPITALIZATION IS ON

[(b)(1) . (b)(4)]

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COMMENT
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8. (C) THE IPPS ARE GETTING CLOSER TO AN AGREEMENT WITH THE GOV. AS REPORTED SEPTELS. HOWEVER, SMITH-ENRON AND AES NEED MONEY BADLY. [(b)(4)]

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DEPT TREASURY COMCEN
PH 622-2222 RM 1121/MT

OPPOSING SIDES

3. (C) THE MEETING OPENED WITH A STATEMENT BY THE DESIGNATED IPPS SPOKESMAN POINTING TO THE ACCUMULATED DEBT AND THE INCREASING DIFFICULTY FACED BY THE IPPS IN PAYING THEIR BILLS. HE STATED THEIR CONCERN ABOUT HOW THE DEBT WILL BE TREATED IN THE PRIVATIZATION PROCESS. HE ALSO UNDERLINED THEIR UNHAPPINESS WITH THE CURRENT SITUATION IN WHICH COE CUTS (OR "CLIPS") THE MONTHLY INVOICES SUBMITTED BY THE IPPS WITH NO EXPLANATION. ANOTHER IPP REPRESENTATIVE PROPOSED THAT A THIRD PARTY SUCH AS AN INTERNATIONAL ACCOUNTING FIRM BE APPOINTED TO REVIEW THE PROCESS BY WHICH COE CLIPS THE INVOICES.

4. (C) COE ADMINISTRATOR SEGURA RESPONDED, SAYING THAT COE IS CONSIDERING ALTERNATIVES TO DEAL WITH THE DEBT AND THAT A PACKAGE OF PROPOSALS WILL BE SUBMITTED TO THE PRESIDENT. ACCORDING TO SEGURA, COE CALCULATES THE ACCUMULATED DEBT AT $54 MILLION AS COMPARED TO THE MORE THAN $128 MILLION CALCULATED BY THE IPPS. OF THIS AMOUNT, HE STATED, $25 MILLION WAS INHERITED FROM THE PREVIOUS GOVERNMENT AND SHOULD BE FINANCED IN SOME WAY. THE REMAINING $28 MILLION HE SUGGESTED COULD BE REPAID BY REDUCING THE CURRENT PAYMENTS TO THE IPPS FOR FUEL. HE ALSO REFERRED TO THE PAST EXCESSIVE CHARGES BY SMITH-ENGRO AND AES FOR FUEL BOTTLED AT COE AT US$24 MILLION AND US$23 MILLION RESPECTIVELY.

PRESIDENT BEGAN "NO" TO NEW SUBSIDIES...

5. (C) THE PRESIDENT LISTENED TO THE DISCUSSION OF DEBT NUMBERS AND COMMENTED THAT THE MEETING WAS NOT THE APPROPRIATE VENUE FOR DISCUSSION OF SUCH DETAILS, SUGGESTING THAT THE CONVERSATION BE CONTINUED AT THE COE OFFICES. WHEN ASKED IF THE GOVERNMENT WOULD RESOLVE THE DEBT BY INCREASING ITS MONTHLY SUBSIDIES TO COE (NOW APPROXIMATELY $17 MILLION), THE PRESIDENT RESPONDED WITH AN EMOTIONAL "ABSOLUTELY NOT!" HE SAID THAT TO DO SO WOULD RESULT IN A FISCAL DEFICIT WHICH WOULD HAVE A NEGATIVE IMPACT ON THE COUNTRY'S FLAT MACROECONOMIC STABILITY. THE PRESIDENT INDICATED THAT THIS DID NOT MEAN THAT THE GOVERNMENT WOULD NOT BE WILLING TO WORK WITH THE IPPS TO FIND A WAY TO FINANCE THE DEBT.

...BUT ASKS FOR IPP INPUT

6. (C) THE PRESIDENT REQUESTED THAT THE IPPS DRAFT A PAPER FOR HIM PROPOSING POSSIBLE MEANS TO ELIMINATE THE DEBT THROUGH THE PRIVATIZATION PROCESS OR TO FINANCE IT
INDEPENDENT OF THE PRIVATIZATION PROCESS THROUGH A BOND ISSUE OR OTHER MECHANISM. WITH THEIR PROPOSALS IN HAND, THE PRESIDENT SAID HE WOULD INVOKE THEM TO JOIN WITH HIM AT THE WEEKLY MEETING BETWEEN THE COMISIÓN DE REFORMA DE LA EMPRESA PÚBLICA (CREP) AND CDE TO DISCUSS THEIR CONCERNS AND IDEAS WITH COMMISSION HEAD ANTONIO ISA CONDE. THE PRESIDENT ADMITTED THAT HE IS ALSO CONCERNED ABOUT HOW THE CURRENT DEBT IS BEING INCURRED BY CDE FOR THE PURCHASE OF THE GEC ALSTHOM AND SIEMENS TURBINES. WILL BE HANDLED IN THE PRIVATIZATION OF CDE.

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COMMENT
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7. (ID) WHILE DISAPPOINTED THAT THE MEETING DID NOT YIELD SOME IMMEDIATE RELIEF ON DEBT PAYMENTS, THE IPPS WERE GENERALLY PLEASED THAT THEY WERE ABLE TO DRAW MORE ATTENTION TO THE ACCUMULATED DEBT. THEY ARE ALSO PLEASED TO HAVE THE OPPORTUNITY TO TAKE THEIR CASE TO THE CREP.

8. (ID) WE FOUND THE PRESIDENT'S REFERENCE TO HIS PARTICIPATION IN WEEKLY MEETINGS BETWEEN THE CREP AND CDE PARTICULARLY INTERESTING. WE BELIEVE THESE MEETINGS ARE NOW BEING HELD TO KEEP THE PRIVATIZATION PROCESS UNDERWAY. IN A CONVERSATION WITH CHARGO AFTER THE MEETING, SEGURA WAS EFFUSIVE IN HIS SUPPORT OF PRIVATIZATION. WE BELIEVE HE WAS TAKEN TO THE WOODS AND THIS HAS MODERATED HIS POSTURE...
1. [(b)(6)] WAS A PANELIST AT THE INSTITUTE OF THE AMERICAS'S LATIN AMERICAN ENERGY CONFERENCE HELD MAY 18-19 IN LA JOLLA, CALIFORNIA. HIS PRESENTATION OVERVIEWED THE PRIVATIZATION PLAN FOR COE.

2. (b) AN EB/IEC OFFICER SPOKE WITH [(b)(6)] ON THE MARGINS OF THE CONFERENCE, OFFERING COMPLIMENTS ON HIS PRESENTATION AND EXPRESSING HIS INTEREST AND ENCOURAGEMENT FOR A VIABLE PRIVATIZATION OF COE.

[(b)(6)] APPRECIATED THE INTEREST.

3. (c) EB OFFERED NOTES HOWEVER, THAT ONCE DISPUTES WITH INDEPENDENT POWER PRODUCERS ARE NOT LIKELY ALISTING COE'S EFFORTS TO ATTRACT FRESH INVESTMENT. DRAWING ON DEPARTMENT GUIDANCE, EB OFFERED TO [(b)(6)] THAT WASHINGTON VIEWED WITH SERIOUS CONCERN THE ACTIONS TAKEN AT THE AES COMPANY'S POWER PLANT. AN ARMY BRIGADE WAS DISPATCHED TO THE PLANT THE AFTERNOON OF APRIL 21 (REF(S)). [(b)(6)] DISPLAYED THE SIGNIFICANCE OF THE INCIDENT TO WHICH EB OFFICER REINFORCED WASHINGTON'S SERIOUS CONCERN, ADDING ALSO AN EXPECTATION THAT COMMERCIAL DISPUTES WOULD NOT BE INAPPROPRIATELY ADDRESSED IN THIS MANNER IN THE FUTURE.

4. (c) [(b)(6)] TURNED TO THE SMITH-ENRON DISPUTE, INDICATING IT WAS A SERIOUS PROBLEM. EB OFFERED WELCOME.

5. (d) WITH [(b)(6)] EB OFFERED TO THE SUBJECT OF HEMISPHERIC ENERGY COOPERATION. NOTING HOW COUNTRIES IN THE HEMISPHERE ARE NOW ENGAGED IN A FRUITFUL DIALOGUE ON ENERGY UNDER THE SUMMIT OF THE AMERICAS PROCESS. EB OFFERED THAT GOOD PARTICIPATION IN THIS PROCESS IS WELCOME AND MAY BE TIMELY GIVEN ITS EFFORTS TO PRIVATIZE COE. EB OFFERED TOLD [(b)(6)] THE NEXT MEETING OF GOVERNMENTAL REPRESENTATIVES OF THE HEMISPHERIC ENERGY PROCESS WOULD BE IN TRINIDAD IN JUNE AND NOTED THAT A GOOD REP WILL BE INFLUENCED TO TAKE PART. [(b)(6)] ASKED TO BE KEPT INFORMED ON THE SUBJECT.

7. (c) COMMENT: HOPEFULLY, [(b)(6)] WILL BRING BACK TO HIS BOSS AT COE THE MESSAGE: ONCE AGAIN, THAT THE AES INCIDENT DID NOT GO UNNOTICED IN WASHINGTON. AFTER HIS PANEL PRESENTATIONS, THERE WERE NO QUERIES FROM THE FLOOR DIRECTED AT [(b)(6)]. ONE POWER DEVELOPER TOLD EB OFFER THAT HE WAS VERY DISAPPOINTED WITH THE Terms OF THE COE PRIVATIZATION AND, ALTHOUGH HE WAS UNAWARE OF THE RAGING INVESTMENT DISPUTES IN THE POWER SECTOR, HIS COMPANY HAD ALREADY DECIDED TO LOOK ELSEWHERE. END COMMENT.

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IMMEDIATE

CONFIDENTIAL

DEPT. TREASURY COMCEN
PH 622-2222 RM 1121/MT

PAGE 01 OF 02

MID:1991121016R  056394  01/1992

DEPARTMENT VIA
ACTION - ETS/EPD (I) + EN (I) + BBD (I) + D6 (I) + D3 (I) + DD (I) + IN (I) + DN (I) + RO (I) +
CRC = 6799

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DC RUCIC #2157/01 1211992
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RUCIC/USOC WASHDC

MID:1991121016R  056394  01/1992

CONTRIBUTION SECTION 01 OF 02 SANTO DOMINGO 02157

USOC FOR 3133/USEFS/CGO/WF/RL
USOC FOR 4211/1211992/WP/USC/SIEGMAN
E.O. 12916: DECL: 04/24/2003
TAGS: ERCR, RR
SUBJECT: SMITH-ENRON: MEETING WITH PRESIDENT FERNANDEZ IS POSITIVE/NEGATIVE

REF: SANTO DOMINGO 1898 AND PREVIOUS

A) CLASSIFIED BY LINDA K. HAY, CHARGE D'AFFAIRES
A.I.7 REASON: 1.5(D)


END SUMMARY.

2. (C) [(b)(6)]

CALLED ON PRESIDENT LEONEL FERNANDEZ ON APRIL 13. THE PRESIDENT WAS ACCOMPANIED BY CURRENT CIE ADMINISTRATOR RAFAEL SETRA AND FORMER ADMINISTRATOR, NEW TECHNICAL SECRETARY; TEMNISTOCLES

MORTAG [(b)(6)]
BLEW FART THE CHARGE IMMEDIATELY FOLLOWING THEIR MEETING WITH THE PRESIDENT.

[(b)(4), (b)(6)]

CONTRACT PENALTIES

4. [(b)(6)]

SHE BELIEVES THE PENALTY ASSESSED BY CIE FOR PRODUCTION BELOW RATED CAPACITY (THE SO-CALLED "DOUBLE GLUT") IS [(b)(4)].

THE PRESIDENT SEEMED SYMPATHETIC TO THIS ARGUMENT AND INFONED THE MONEY IS IN THE BANK TO MAKE THEM A PAYMENT. SERENA SAID HE WOULD CONSIDER SUSPENDING THE PENALTY ON FUTURE INVOICES BECAUSE OF IMPROVED PLANT OPERATIONS.

[(b)(1), (b)(4)]

CONTRACT TALKS

5. [(b)(4)]

WITH REFERENCE TO THE TALKS BROKED BY THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION [(b)(4)],

PREPARED THE PRESIDENT THAT ENRON WILL NEGOTIATE ON THE BASIS OF A DRAFT NOU TABLED BY THE CIE BOARD ON DECEMBER 24, 1997. ENRON WILL NOT RETURN TO "GROUND ZERO" AS PROPOSED BY CIE, THE PRESIDENT REMARKED THAT THE ORIGINAL CONTRACT WAS VERY FAVORABLE TO SMITH-ENRON. [(b)(6)]

RESPONDED THAT ENRON MADE A NUMBER OF IMPORTANT CONCESSIONS TO MAKE IT MORE BALANCED IN THE 1997 NEGOTIATIONS. [(b)(6)]

SUGGESTED TO THE PRESIDENT THAT IT WOULD BE HELPFUL IF THERE WERE SOME CONTINUITY IN THE CIE NEGOTIATING COMMITTEE; NOTE: THE ENTIRE CIE BOARD, WITH THE EXCEPTION OF BOARD PRESIDENT CELSO MARRANZINI, WAS REPLACED THREE WEEKS AGO.

[(b)(1), (b)(6)]

PRESIDENT FERNANDEZ AGREED THERE SHOULD BE CONTINUITY ON THE NEGOTIATING COMMITTEE AND INSTRUCTED [(b)(1)] THAT THEY SHOULD BOTH PARTICIPATE. HE ALSO INSTRUCTED THAT THE TALKS RESUME ON THE BASIS THEY WERE LEFT IN DECEMBER 1997.
CONFIDENTIAL

DEPT TREASURY COMCEN
PH 622-2222 RM 1121/MT

CONFIDENTIAL SECTION 82 OF 82 SANTO DOMINGO 82157

USDOC FOR 313/USFC/010/MI/RD
USDOC FOR 4122/ITA/1/FW/OMB/SIEGELMAN

C/O 12345; DECL: 6/14/200X
TAGS: ERRG, DR

SUBJECT: SMITH-ENRON: MEETING WITH PRESIDENT
FERNANDEZ IS POSITIVE/AFTERMATH ISN'T

REF: SANTO DOMINGO 183# AND PREVIOUS

[((b)(4))]

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GETTING PAID

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[((b)(4), (b)(6))]

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COMMENT
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11. (C) THE EVENTS OF THE WEEK SINCE THE MEETING WITH
PRESIDENT FERNANDEZ REPORTED IN THIS MESSAGE SERVE TO
FURTHER UNDERLINE OUR CONCERN THAT

[((b)(4))]

CDE HAS CONTINUED TO DROP ITS
FEET ON PAYING SMITH-ENRON AND NOW SEEMS TO BE TAKING A
POSITION ON THE TALKS WHICH SMITH-ENRON WILL NOT
ACCEPT. WAIT

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CHILECERO
AMOCO POWER DIVISION CO. LTD.
IBEROROLE
UNION FENOSA
SAIL INTERNATIONAL
COASTAL TECHNOLOGY
CARIB POWER DIVISION
EMPEAS GALLOP GLOBAL
EMPEAS INTERNATIONAL
CONSTELLATION POWER INTERNATIONAL INV.
SOUTHERN ENERGY, INC.
AES DISTRIBUTION DOMINICANA
TRACTEBEL S.A.
ABE ENERGY VENTURES
CORPORACION ELCASA SAC
CONSORCIO IES-LUIZ FUERZA


3. (U) THE PRE-QUALIFICATION PHASE IS SCHEDULED TO END ON APRIL 15 WHEN THE CREP (THE COMMISSION DE REFORMA DE LA EMPRESA PUBLICA) IS DUE TO PUBLISH THE LIST OF PRE-QUALIFIEES. ALTHOUGH THE TIMING FOR SUCCESSIVE PHASES HAS NOT BEEN SPELLED OUT CLEARLY, POTENTIAL BIDDERS NOW EXPECT TO PRESENT THEIR OFFERS IN JUNE OR JULY WITH THE ASSESSMENT PROCESS LIKELY TO BE FINISHED IN AUGUST.


REGULATORY STRUCTURE: SUPERINTENDENCIA DE ELECTRICIDAD

5. (U) ONE OF THE IMMEDIATE OUTCOMES OF THE RECENT NATIONAL DIALOGUE WAS PRESIDENTIAL DECREES NO. 118-98 ESTABLISHING A NATIONAL SUPERINTENDENT OF ELECTRICITY (SUPERINTENDENCIA DE ELECTRICIDAD) WITHIN THE SECRETARIAT OF INDUSTRY AND COMMERCE. THE PROCLAMATION OF THIS DECREES ESTABLISHES A REGULATORY STRUCTURE FOR THE SECTOR THAT HAS SERVED TO ALLAY SOME OF THE ANXIETY OF WOULD-BE INVESTORS ABOUT THE GOVERNMENT'S INTABILITY TO
CONFIDENTIAL

DEPT TREASURY COMCEN
PH 622-2222 RM 1121/MT

CONFIDENTIAL SECTION 02 OF 02 SANTO DOMINIC 881714

CORRECTED COPY - CORRECT DECL

E.0. 12558: DECL: 04/04/2883
TAGS: ENR= DR
SUBJECT: ELECTRICITY WRAP-UP: PRIVATIZATION AND RELATED ISSUES

REF: SANTO DOMINIC 1872

A DESIRABLE PRODUCT?

6. ID EVENTS SINCE EARLY FEBRUARY HAVE SERVED TO UNDERLINE THE KNIFE EDGE ON WHICH CDE NOW OPERATES. A SEVERE STORM ON FEBRUARY 4 -- BY COINCIDENCE THE SAME DAY PRESIDENT FERNANDEZ WAS SCHEDULED TO ATTEND THE CEREMONIAL ORIENTATION OF THE FIRST FOUR OF THE FIVE 34MW GENERATORS PURCHASED FROM GEC ALSTROM (FRANCE) -- CAUSED EXTENSIVE DAMAGE TO THE NATIONAL GRID. AN ENERGY SECTOR CONTACT COMMENTED TO ECOTRENCH IN THE STORM AFTERMATH THAT THE GRID IS SO UNSTABLE THAT "JUST HUMIDITY," MUCH LESS SEVERE WIND AND RAIN, CAN CAUSE A CASCADE AFFECTING THE ENTIRE GRID. AT TIMES CDE OR A FULL DAY TO RE-BALANCE THE SYSTEM. THIS INSTABILITY IN THE NATIONAL GRID, ON TOP OF A DROUGHT-INDUCED DECREASE IN THE GENERATION OF HYDROPOWER AND PRODUCTION PROBLEMS IN THE PART OF INDEPENDENT POWER PRODUCERS SMITH-ENRON AND AES HAVE LED TO INCREASE THE DAILY BLACKOUTS SUFFERED THROUGHOUT THE COUNTRY. THESE PROBLEMS ARE COMPOUND BY CDE'S WELL-KNOWN ADMINISTRATIVE SHORTCOMINGS: FAILURE TO ADEQUATELY METER THE ELECTRICITY IT SELLS, FAILURE TO COLLECT FROM ITS CUSTOMERS ETC.

7. ID CDE'S TWO PRINCIPAL PLANTS, ITABO I AND II REQUIRE GENERAL MAINTENANCE THAT COULD LAST EIGHT MONTHS OR MORE. THE TWO PLANTS EACH HAVE AN INSTALLED CAPACITY OF 155MW BUT ARE CURRENTLY RUNNING AT 68-88MW. ITABO I HASN'T BEEN OVERHAULED SINCE 1991; ITABO II SINCE 1984. THE FIVE UNITS AT MAINA TELL MUCH THE SAME STORY: THE UNITS HAVE A TOTAL INSTALLED CAPACITY OF 366MW BUT ARE NOW RUNNING AT A TOTAL OF APPROXIMATELY 105MW. ONE 81MW UNIT IS REPORTEDLY BEYOND REPAIR.

8. ID THE GOVERNMENT HAS HAD ITS HOPES FOR AN IMPROVEMENT IN THE ELECTRICITY SITUATION ON THE FRENCH 34MW GENERATORS, TWO OF WHICH ARE NOW EXPECTED TO BE INSTALLED IN SAN PEDRO DE MACORIS IN ADVANCE OF THE MAY ELECTIONS. INDUSTRY SOURCES, HOWEVER, ARE HIGHLY SKEPTICAL, SAYING THAT THE FIX IS LIKELY TO A SHORT TERM ONE. THEY WARN THAT THE INCREASED FUEL BILLS FOR THE NEW GENERATORS WILL SIMPLY INCREASE CDE'S COSTS, WHILE THE RISK THAT THEY WILL BE RUN INTO THE GROUND IN SHORT ORDER THROUGH LACK OF MAINTENANCE IS HIGH.

CURRENT STATE OF THE US IPPS: AES JOINS SMITH-ENRON IN THE SCAFEADAT SWEEPSTAKES

9. ID AES DOMINICAN POWER PARTNERS JOINED SMITH-ENRON ON THE GOVERNMENT'S BLACK LIST WHEN BOTH ITS GENERATORS FAILED IN FEBRUARY. THE GOVERNMENT'S SOURCES SAY THAT THE PLANT BACKLOG WITH CDE IS AGAIN BEARING THE CRITICAL LEVEL. ANOTHER U.S. IPP, COASTAL POWER, HAS ALSO APPROACHED THE EMBASSY WITH THE INFORMATION THAT DURING THE UNREST IN COUNTRY HAS REPORTEDLY TO CDE HAS RESPONDED BY RUMPING UP OVER ((b)(1)) IN UNPAID BILLS.

COMMENT

10. ID WHEN ASKED WHY THE GOVERNMENT IS ASKING THE IPPS TO INVEST IN THE OR ARE THE IPPS PAYING MORE FOR THE SERVICES OF THE IPPS, THE U.S. IPPS UNIVERSALLY RESPOND THAT THEY SEE THE OPPORTUNITY IN THE SECTOR. THEY ACKNOWLEDGE, HOWEVER, THAT THE ABILITY TO COLLECT ANY KIND OF LUMP SUM PAYMENT ON ITS DEBT, PROBABLY IN THE RANGE OF ((b)(1)) DEPENDENT ON PRIVATIZATION, ONE COMMENTED THAT "WITHOUT PRIVATIZATION IT MAKES NO SENSE TO INVEST HERE." THE FEBRUARY 27 CHANGE IN LEADERSHIP AT CDE HAS ADDED AN ADDITIONAL ELEMENT OF DISPOSE TO THIS ASSESSMENT. SOURCES IN THE U.S. IPPS SATE THAT ((b)(1)) OPPOSE THE PRIVATIZATION OF CDE. WE CAN ONLY HOP THAT VITE THE INTERIM PROCESS MOVING ALONGE IT IS TOO LATE TO DELAY IT. WATT

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CONFIDENTIAL

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THE DOMINICAN PUBLIC NOW BELIEVES WOLFENSOHN WILL CHAIR A FIRST MEDIATION MEETING IN WASHINGTON TO ADVANCE THE Process. Two IFC OFFICIALS REMAINED IN SANTO DOMINGO AFTER WOLFENSOHN’S DEPARTURE. THE OFFICIALS MET WITH S-E ON TUESDAY, MARCH 16, AND WERE SCHEDULED TO MEET WITH CDE OFFICIALS AND MEMBERS OF ITS BOARD ON MARCH 11. THE IFC REPRESENTATIVES WERE REPORTEDLY TASKED WITH ESTABLISHING THE OPENING POSITIONS OF BOTH SIDES PRIOR TO HOLDING A PREPARATORY MEETING IN SANTO DOMINGO BEFORE THE FIRST OFFICIAL MEETING IN WASHINGTON CHAIRED BY WOLFENSOHN.

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ARBITRATION PANEL

3. THE DIFFERENCES ON THE CONTRACTUAL INTERPRETATION BETWEEN S-E AND CDE ARE NOT BEING CLARIFIED IN A COURT OF INTERNATIONAL ARBITRATION IN MEXICO CITY. THE AMOUNT INVOLVED AMOUNTS TO APPROXIMATELY $604 MILLION. THE ARBITRATION PANEL CONVENE IN MARCH-FEBRUARY AND WILL HOLD ITS FIRST MEETING ON MARCH 17. ITS DECISION WILL BE HANDED DOWN 120 DAYS AFTER THAT DATE.

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SMITH-ENRON'S LATEST CRISIS

[b(4)], [b(6)]
AS NOTED ABOVE, FOLLOWING THE MEETING BETWEEN WULFENDAHN AND PRESIDENT FERNANDEZ, TWO IFC OFFICIALS REMAINED IN SANTO DOMINGO TO INVESTIGATE THE DISPUTE. THE IFC REPRESENTATIVES MET WITH S-E ON TUESDAY, MARCH 17, AND WERE SCHEDULED TO MEET WITH CIE AND ITS BOARD ON MARCH 21.

18. ID [b](4) REPORTED THAT SMITH HIMSELF WILL ARRIVE IN THE DR ON MARCH 14. ENRON MANAGERS WILL ALSO VISIT THE DR. THE EMBASSY HAS ASKED [b](6) TO KEEP IN CLOSE TOUCH AND HAS INDICATED ITS WILLINGNESS TO MEET WITH THE COMPANY OFFICIALS.

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**COMMENT**

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11. (C) THE WORLD BANK HAS UNDOUBTEDLY TAKEN ON THIS POLICY PROBLEM BECAUSE OF THE IFC’S INVOLVEMENT IN FINANCING THE PROJECT. A MEDIATION RESULT MAY BE MORE ATTRACTIVE TO THE GOV. BECAUSE OF THE LESS OF FACE THAT YET MAY RESULT FROM A DECISION BY THE ARBITRATION PANEL. MEDIA REPORTING ON THE START OF THE ARBITRATION PROCESS WAS NYC/TROPIC WHICH UNDERLINES THE DIFFICULTIES THE GOV. MAY FIND ITSELF IN HAVING SO LAMINAT THE S-E CONTRACT THAN ITS BECOMES DIFFICULT TO ADMIT TO THE DOMINICAN PUBLIC THAT THE CONTRACT IS NOT SO FAR REMOVED FROM THE INDUSTRY STANDARD. MORE DANGEROUSLY, CIE HAS MADE SUCH A WHIPPING BOY OUT OF S-E THAT IT BECOMES QUESTIONABLE WHETHER CERTAIN CIE EMPLOYEES MIGHT HAVE MORE INVESTED IN SEEING NO SUCCESSFUL RESOLUTION.

11. (C) THE TIMING OF THIS PHASE OF THE LONG-STANDING DISPUTE MAY ENDANGER ANOTHER PROJECT IMPORTANT TO U.S. INTERESTS. [b](4)
CONFIDENTIAL

DEPT TREASURY COMCEN
PH 622-2222 RM 1121/M

PAGE 03 OF 03

[(b)(4)]

CONFIDENTIAL SECTION 03 OF 03 SANTO DOMINGO 01972

E.O. 12958: DECL: 03/12/83
TAGS: EMS, DR
SUBJECT: SMITH-CHRON: WORLD BANK TO PLAY A ROLE

[(b)(1), (b)(4)]

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CONFIDENTIAL

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FOR REVENUES LOST THROUGH THE PROPOSED CHANGES IN THE CUSTOMS REGIME, TORIBIO RESPONDED THAT THE GOVERNMENT BELIEVES IT WILL MAKE THEM UP THROUGH THE PROPOSED INCREASE OF THE IBIS TAX LOCAL VAT TAX FROM 9 TO 12 PERCENT AND AN ACCOMPANYING REDUCTION IN THE NUMBER OF EXCEPTIONS NOW ALLOWED UNDER THE TAX CODE.

DEBT

4. (C) TORIBIO RAISED THE GOOR'S NOW FAMILIAR COMPLAINT ABOUT THE BURDEN OF FOREIGN DEBT PAYMENTS. HE ADMITTED TO CHARGE; HOWEVER, THAT THIS WAS MORE A "PHILOSOPHICAL" ISSUE WITH THE USG AND THAT THE GOOR'S COMPLAINTS WERE MORE AIMED AT THE IFI'S.

SMITH ENRON

5. (C) TORIBIO ALSO RAISED THE ISSUE OF GOOR DISSATISFACTION WITH THE PERFORMANCE OF INDEPENDENT POWER PRODUCER SMITH ENRON'S 165 MEGAWATT CYCLE PLANT IN PUERTO PLATA. TORIBIO NOTED THAT THE GOOR HAD ASKED THE INTERNATIONAL FINANCE CORPORATION (IFC) "TO FOLLOW THIS PROBLEM." TORIBIO ALSO SPECULATED THAT ENRON WOULD WANT TO SAVE ITS INSTITUTIONAL IMAGE BESMIRCHED BY THE ON-GOING PROBLEMS WITH THE PLANT. INCLUDE IN THE BANK’S LETTER DATED JANUARY 6 PASSED TO THE EMBASSY AND PASSED TO E/B/ESC/EP/EPC AND ARR/CAR IN WHICH CDE REQUESTS A MEETING WITH SENIOR ENRON MANAGEMENT CONCERNING THE CONTINUING PROBLEMS WITH THE PLANT.

1. (U) WHEN CHARGE QUESTIONED HOW THE GOOR WILL MAKE UP...
CONFIDENTIAL

DEPT TREASURY COMCEN
PH 622-2222 RM 1121/MT

CUTION:

HANDLE VIA ACTION: ISR & Q.J.-
CRC = 11/4

CO RUEATRS
CE RUEATRS 66212 11/4 22
ZNY CCC 1120
O 11/12212 DEC 37
FM AMBASSADORS SANTO DOMINGO
TO RUEATRSemplates IMMEDIATE 8122
INFO RUEATRS/AMBASSADORS PORT AU PRINCE 6534
BT
CONFIDENTIAL SANTO DOMINGO 86721

E.O. 11559: DECL: 12/16/2002
TAGS: ENG, DE
SUBJECT: STATUS OF CLAIMS ON CDE

REF: A. SANTO DOMINGO 6617; B. SANTO DOMINGO 6637

1. UN Class: LINDA WATT, CHARGED D'AFFAIRES
A.I.; REASON: L.W.

2. UN Class: [(b)(4), (b)(6)]

ONE DOWN: SMITH-ENRON

2. [(b)(6)]
CONFIRMED RECEIPT OF PAYMENT IN THE AMOUNT OF $15.5
MILLION FROM CDE BY DUE'S END DECEMBER 12. [(b)(6)]
INFORMED ECONOFF THE COMPANY EXPECTS TO FINISH A BOILER
UPGRADE THIS WEEK AND INCREASE POWER GENERATION FROM
145 TO 188 MEGAWATTS. [(b)(6)]

3. (C) ALTHOUGH PPP'S CLAIM AGAINST CDE HAS NOT YET
REACH THE PRESS, THE WORD IS OUT IN THE ENERGY SECTOR,
WHILE SMITH-ENRON CONTINUES TO BE THE MOST CONVENIENT
SCAPEGOAT FOR THE ILLS OF THE SECTOR. [(b)(4), (b)(6)]

THE TIMING OF THIS CONFRONTATION IS
UNFORTUNATE — CDE MAY YET BE ABLE TO CONVINCE
DOMINICANS THEIR CHRISTMAS LIGHTS WERE Turned OFF BY
VILLAINOUS FOREIGN POWER PRODUCERS. WATT
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((b)(4))

((b)(4))

As noted above, however, the letter gives CCE until December 22 to make the payment.
IMMEDIATE

DEPT TREASURY COMCEN
PH 622-2222 RM 1121/MT

MILLION BY FRIDAY, DECEMBER 12.

CDE BOARD MEMBER ADVOCATES CALLING THE MILITARY

4. CI SMITH-ENRON [((b)(6))]
CONTACTED THE EMBASSY EARLY ON DECEMBER 9 TO INFORM US THAT CDE BOARD PRESIDENT CELSO MARRANZINI HAD APPEARED ON A MORNING TALKSHOW AND SAID THAT "IF IT DEPENDED ON CELSO MARRANZINI I WOULD TELL THEM (SMITH-ENRON) TO TURN OFF THE POWER AND, ON THE 11TH, MILITARIZE IT, AND GIVE IT TO CDE ON THE 12TH." MARRANZINI'S COMMENT WAS PICKED UP BY AFTERNOON DAILY EL NACIONAL WHICH LED THE STORY WITH A BANNER HEADLINE "CONEP PRESIDENT FAVORS CDE MILITARIZING SMITH." [((b)(6)]

[[(b)(4), (b)(6)]]

5. CI IMMEDIATELY FOLLOWING THE MEETING WITH CDE CHARGE AND AJ/CH CONTACTED [((b)(6)]
RESPECTIVELY TO DISCUSS MARRANZINI'S COMMENTS, MONTAS INFORMED CHARGE THAT CDE PLANNED TO MAKE THE PAYMENT TO SMITH-ENRON ON WEDNESDAY, DECEMBER 10. [((b)(6)]

[[(b)(6)]
INFIRMED AJ/CH THAT IT IS NOT THE INTENTION OF THE GOVERNMENT TO TAKE ANY ACTION THAT WOULD BE A DISINCENTIVE TO FOREIGN INVESTMENT. IN CLOSING, CHARGE INFORMED AJ/CH THAT THE ISSUE SHOULD NEVER HAVE GOTTEN INTO THE PRESS IN THE FIRST PLACE. [((b)(6)]
INFIRMED AJ/CH THAT ALTHOUGH HE HAD NOT BEEN INFORMED OF WHAT MARRANZINI HAD SAID, IT WAS NOT THE OFFICIAL POSITION
OF THE GODS. HE SAID HE WOULD IMMEDIATELY CONTACT THE 
CDE ADMINISTRATOR AND THE PRESS SECRETARY OF THE 
PRESIDENCY. [b](6) STATED THAT HE AGREED WITH THE 
OPINION THAT THE PROBLEM WITH SMITH-ENRON WOULD BE 
SOLVED THROUGH NEGOTIATION AND THAT UNDER NO 
CIRCUMSTANCES WOULD MARRINZIN'S COMMENT HAVE THE 
BACKING OF THE GOVERNMENT. HE CLOSED BY SAYING THAT 
MARRINZIN'S COMMENT WAS "PROBABLY THE OPINION OF THE 
CONFIDENTIAL SECTION 32 OF 32 SANTO DOMINGO 86627

E.D. 12558; DECL: 12/18/2002 
TAGS: ENR, DR 
SUBJECT: BUT-HATRED PUBLIC COMMENT AGGRAVATES TENSE 
SITUATION OVER CDE SMITH-ENRON PAYMENT

MOMENT, UNDER PRESSURE."

THE WEDNESDAY MORNING PRESS

7. [7] LEADING DAILIES LISTIN DIARIO AND HOY LED THEIR 
FRONT PAGES ON DECEMBER 9 WITH STORIES ABOUT A PUBLIC 
ANNOUNCEMENT MADE BY CDE THE NIGHT OF THE 9TH. CDE 
ANNOUNCED THE IMPASSE WITH SMITH-ENRON HAD BEEN 
RESOLVED AND THAT IT PLANNED TO MAKE THE PAYMENT TODAY. 
THE LISTIN ARTICLE NOTED THAT "THE SOLUTION... WAS 
ANNOUNCED HOURS AFTER SMITH-ENRON COMPLAINED TO THE 
EMBASSY ABOUT ITS CONFLICT WITH CDE...."

8. [8] EMIOFF CONTACTED PICKARDO WHO CONFIRMED CDE 
ADMINISTRATOR MONTAS HAD ALSO CONTACTED HIM TO SAY CDE 
WOULD PAY ON THE 18TH. PICKARDO WILL INFORM US WHEN 
PAYMENT HAS BEEN RECEIVED.

HOT STATED THAT PEAK HOURS ELECTRICITY DEMAND ON 
DECEMBER 9 WAS 1,258 MEGAWATTS WHILE CDE SUPPLIED ONLY 
985 MEGAWATTS. HOT CHARACTERIZED THIS 253 MEGAWATT 
SHORTFALL AS ONE OF CDE'S MOST CRITICAL POINTS IN THE LAST FEW 
WEEKS OF GROWING BLACKOUTS IN SANTO DOMINGO AND 
ELSEWHERE. THE ARTICLE COMMENTS THAT SMITH-ENRON HAD 
PLAYED A PART IN THE SHORTFALL, OPERATING AT 145 
MEGAWATTS INSTEAD OF THE 145 FOR WHICH THE FACILITY IS 
DESIGNED. [COMMENT: THE SMITH-ENRON SHORTFALL IS, 
HOWEVER, A SMALL PERCENTAGE OF THE SHORTFALL ON THE 
GRID.]

10. [10] THERE IS A STRONG PERCEPTION ON THE PART OF
SOUTH AFRICA - ENRON'S PARTNER IN THIS PROJECT, TOLD THE AMBASSADOR THAT IDC DELIVERED COMPLETED FEASIBILITY STUDIES TO THE GOVERNMENT THAT SAME DAY, IN ADVANCE OF THE END OF YEAR DUE DATE.

4. (C) SAY THE PROJECT DIMENSIONS REMAIN UNCHANGED; THE PIPELINE WOULD COST $408 MILLION AND THE STEEL SLAB PLANT NEAR MAPUTO AND RELATED ACTIVITIES WOULD COST $16.6 BILLION AND IDC GENERAL MANAGER TONY DRISTE CONFIRMED THESE FIGURES TO US. ENRON IS IN PARTNERSHIP WITH IDC ON THE WHOLE DEAL, BUT CONSTRUCTION AND OPERATION OF THE PIPELINE REMAIN ENRON'S SOLE RESPONSIBILITY.

5. (C) SAY THE PROJECT OPERATIONS WILL BE COMPLETED IN 1999.

6. (C) SAY THE PROJECT WILL BE COMPLETED IN 1999.

[([b](4))]

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ENRON UPDATE

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6. (C) SAY THE PROJECT WILL BE COMPLETED IN 1999.

[([b](4))]

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ENRON UPDATE
7. (C) SEPARATELY, DROSTE TOLD US IDC IS HOPEFUL 
CONFIDENTIAL SECTION 82 OF 83 MAPUTO 050458 
DEPT FOR AF/S/EP And EE/ICD

DOC FOR DONNA BIBBS

E.O. 12558: DECNC: 12/18/88
TAGS: EMB, EPIF, ECOM, E/NV, EEXP, FREL, MD
SUBJECT: MOZAMBIQUE GAS UPDATE

SITE WORK ON THE STEEL PLANT COULD BEGIN BY THE END OF THE YEAR, EVEN IF FINANCING COULD BE FULLY IN PLACE EARLIER. CIVIL ENGINEERING CONSTRAINTS WITH THE ONGOING ROZAL ALUMINUM SHELTER IN MAPUTO, WHICH IS ALSO AN IDC PROJECT, WOULD PRECLUDE SITE WORK ANY SOONER.

8. (U) ENRON ALSO NOW SEEMS TO HAVE A WELL THOUGHT-OUT PUBLIC RELATIONS STRATEGY. WAY HAS PLANS FOR DEMINING OPERATIONS NECESSARY FOR THE PIPELINE CONSTRUCTION TO BE EXTENDED INTO NEIGHBORING VILLAGES AND ROADS. ENRON HAS ALREADY BEGUN ORGANIZING TRAINING COURSES IN MAPUTO FOR SKILLED WORKMEN FOR THE PIPELINE PROJECT, AND THEY PLAN SCHOOL BUILDINGS AND AN EXTENSIVE PROGRAM OF UNIVERSITY SCHOLARSHIPS FOR STUDY IN THE U.S.

9. (U) WE EVALUATED THE OVERALL DIRECT EMPLOYMENT IMPACT OF THE PROJECT AS ABOUT 5,000 JOBS DURING THE CONSTRUCTION PHASE, FALLING TO BETWEEN 800 AND 1,000 THEREAFTER.

11. (C) FOLLOWING CLOSE ON ENRON'S HEELS, A THREE-MAN ARCO TEAM ARRIVED IN MAPUTO ON DECEMBER 16 FOR MEETINGS WITH KACAMILA. ARCO AND SASOL PLAN A 540 MILE GAS PIPELINE SOUTH FROM THE TEMANE FIELDS TO SASOL'S SEKUNDA GAS FACILITY [(b)(1), (b)(4)]

14. (U) DISCUSSING THE DIRECT EMPLOYMENT IMPACT, FOLEY SAID THAT THERE WOULD BE ABOUT 1,200 DIRECT HIRE POSITIONS, WITH ABOUT 100-120 EXPATRIATE STAFF. ACCORDING TO THE ARCO TEAM, MANY WORKERS COULD BE CONFIDENTIAL SECTION 83 OF 83 MAPUTO 050458

DEPT FOR AF/S/EP AND EE/ICD

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Confidential

DEPT TREASURY COMCEN
PH 622-2222 RM 1121/MT

SUBJECT: Mozambique Gas Update

The ARCO team departed in an upbeat mood after their short trip, highlighted by what they considered a very encouraging four hour meeting with Minister Kachamika. The team was headed for Johannesburg to meet with JCI and Sasol and promised us a further briefing when ARCO's Manager of International negotiations and Contracts, David Sutted, visits Maputo in January to continue talks with the GRM.

ENERGY MINISTER STILL FAVORS ARCO

[(b)(1)]

[(b)(1)]
3. (C) IN THE MEANMEAN: ENRON AND IHC ARE COMMITTING TO INVEST IN THE IRON CARBIDE PLANT IN MAPUTO, AND IHC IS EMERGING AS A KEY PLAYER IN ANOTHER MEGA-PROJECT. THE PROPOSED GENCOR/PLUSAIF ALUMINUM SHELTER TO BE LOCATED IN MAPUTO. IHC COULD BECOME THE PRINCIPAL INVESTOR IN MOZAMBIQUE IF BOTH PROJECTS PAN OUT. IHC IS ALSO AT LEAST PARTIALLY INVOLVED IN THE SOUTH AFRICAN END OF THE MAPUTO DEVELOPMENT CORRIDOR.

END

SUMMARY

- ENRON VISITS

4. (C) ENRON'S PRINCIPAL NEGOTIATOR FOR THE PANDE GAS PROJECT, TONY WAY, VISITED MAPUTO BRIEFLY JULY 12-26 AND GAVE US A DETAILED BRIEFING ON WHERE THE PROJECT IS HEADED.

[(b)(4)]

[(b)(4)]
8. (c) the meetings may have done the trick in postponing an open confrontation [(b)(1)]. but it did not stop a number of people inside the government (including vice foreign minister patricio and central bank governor malame) from asking us when enron/tgc would come up with a buyer. and an interview kachanila gave august 4 to the new daily fasheet “metical” [(b)(1)] the pot. he complained that “enron was not able to get hold of the south african market,” and argued that sasol would have to be part of the customer mix even though the two companies did not get along. he reviewed past sour histories involving the early stages of the negotiations: while admitting things were better now, significantly, kachanila [(b)(1)] said the government was “open” to another extension of “six to eight months”, but no agreement has been reached.

9. (c) “metical” then ran a follow-on article on one of kachanila’s co-betweens shukri saleh from dubai (putative owner of zarara petroleum recently transformed into leoparudis). kachanila responded to implicit accusations of too close a personal relationship with shukri by stating that reputable companies like arco “would not become involved with a small operator that is only after commissions.” he noted that it was saleh who had introduced arco to yemen. kachanila also said that the terpne gas development, and iron carbide plant in beira proposal made by jci/arco, are in the stages of development.

7. (c) in his campaign to secure the future of enron’s participation in the project, way, in the company of consultant bill friedman, met with chissang july 15, and then returned with senior idc officials to make the presentations to kachanila and salomo july 24-25. [(b)(1)]
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DEPT TREASURY COMCEN
PH 622-2222 RM 1121/MT

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E.O. 12585: 6/5/07
TAGS: ECON, EPE, EHRC, ETFD, MZ, SF
SUBJECT: ENVIRON AND DEADLINES

[[(b)(1)]]
3. It is actually a number of ore body alternatives to Phalaborwa located inside South Africa. As for alternatives to ISO and as an operating partner, Enron is quietly talking to major Japanese companies that could double as consumers and operators of the plant if ISO or any other project fails. There are also indications that other economic actors on the South African scene may become interested in an equity stake in the Carboide Plant. As expected, the feasibility study points to the commercial viability of the pipeline. Finally, there are a number of ancillary uses for the gas that Enron is considering including sales to a Sosol-proposed phosphate/ammonia plant in Maputo.

[(b)(1)]

5. A lot is riding on the right outcome to the feasibility study. But with environmental concerns about the use of coal growing inside South Africa, with SASOL and JOAHDN unable to entice KNRKs hydro (or anyone else) into a challenging bid for Pande gas and with Mozambique increasingly aware that Enron is the best opportunity to market Pande gas in thirty years, the prospects for a deal look better today than they did six months ago. There is also wider commercial interest in utilizing the gas than even six months ago and some of the political resistance to the deal on both sides of the border is fading.

[(b)(1)]

6. Enron is also learning to market itself. Its image problems from Bolivia to India are a continuing problem, and with good reason. The signing here on August 9 was the first occasion in two years of negotiations that Enron bothered to put together a
PRESS KIT FOR JOURNALISTS ON THE PROJECT AND ABOUT THE COMPANY. ENRON HAS YET TO TOUCH BASE WITH THE AMERICAN CHAMBER OF COMMERCE IN JOHANNESBURG TO DEVELOP A BASE OF SUPPORT WITHIN THE AMERICAN BUSINESS COMMUNITY IN SOUTH AFRICA. ENRON HAS NOT TALKED TO SOUTH AFRICAN INDUSTRY ANALYSTS INTERESTED IN BREAKING THE STRANGLEHOLD OF THE CONGLOMERATES AND OPENING THE LOCAL ENERGY MARKET. THE ENRON TEAM PROMISES TO SET THINGS RIGHT AND TO DO A BETTER JOB OF PUBLIC CONFIDENTIAL SECTION 02 OF 02 MAPUTO 883605

JOHANNESBURG FOR FIS MC ARNOLD
DUE FOR BOBISHI: DGC FOR ROGERS

E.O. 12358; DECL: 88/14/86
TAGS: DEP+ EF IN+ ECON+ FGOV+ INT+ SF
SUBJECT: WHAT NEXT ON THE ENRON PANDU GAS DEAL

RELATIONS TO INCLUDE CULTIVATING THE MEDIA. RECENT ARTICLES BY INFLUENTIAL JOURNALISTS LIKE SIMON BARBER OF "BUSINESS DAY" ARE IN FACT MORE FAVORABLE IN TONE.

7. OTHER BUSINESS MINISTER KHAMISA APPEARS TO HAVE HANDED ENRON A NINETY DAY EXTENSION BEYOND DECEMBER 1996 TO CONCLUDE NEGOTIATIONS IN REQUIRING THAT A CLAUSE TO THAT EFFECT BE INSERTED IN THE HOA SIGNED WITH IDC. IF THE SAME CLAUSE IS INCORPORATED IN THE ENV/ENRON HOA, THE TIMETABLE WILL EXIST FOR REASONABLE NEGOTIATIONS FOR A FINAL DECISION ON THE PIPELINE ON STRICTLY COMMERCIAL GROUNDS: [(b)(1)]

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(b)(1)

3. (c) MAY RETURNS TO SOUTH AFRICA TODAY, GOES ON TO
PAGE 01
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ACTION = (TRG) BDI (1) . GI (1) . IDB (1) . IDC (1) . IMB (1) . INN (1) . ITI (1)
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INFO RUEBHC/AMCONSUL JOHANNESBURG PRIORITY 2140
RUEHTO/AMBASSY MAPUTO PRIORITY 0779
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CONFIDENTIAL STATE 112499
FOR AMBASSADOR JOSEPH

E.O. 12958; DECL: 05/30/06
TAGS: ECON . EINV . PGOV . MZ . SF
SUBJECT: PROMOTING ENRON: CALL ON TRADE MINISTER ERWIN

REF: (A) PRETORIA 5235 . (B) MAPUTO 2439 . (C) MAPUTO 2515

1. (C) ENTIRE TEXT.

2. IN LIGHT OF DEVELOPMENTS REPORTED IN REFTELS, DEPARTMENT BELIEVES IT WOULD ADVANTAGEOUS FOR YOU TO CALL ON TRADE MINISTER ALEC ERWIN IN SUPPORT OF THE IDC/ENRON HEADS OF AGREEMENT AND ENCOURAGE HIM TO AUTHORIZE THE SIGNING OF THE AGREEMENT WITHOUT DELAY. WE FEEL THE MESSAGE WOULD BE MOST EFFECTIVE IF DELIVERED WITHIN THE NEXT 10 DAYS BEFORE ENRON NEGOTIATOR TONY WAY RETURNS FROM LONDON.

3. WE LEAVE IT WITH YOU, IN CONSULTATION WITH FCO OFFICIALS AND MINERALS OFFICER BRUDVIG: HOW BEST TO FRAME THE ARGUMENT.

CHRISTOPHER BY
#2499
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IMMEDIATE
CONFIDENTIAL
DEPT./TREASURY COMCEN
PH 622-2222  RM 1121/MT

PAGE 01
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INFO RUEHS/AMCONSUL JOHANNESBURG 312S
RUESA/AMBASSY PRETORIA 2874
RUEHTN/AMCONSUL CAPE TOWN 0835
BT
CONFIDENTIAL MAPUTO NO1758

USDOC FOR 4518/EP/ANE/OA/FIOLM-ALSEN
STATE FOR AF/S, AF/EPS, AND EE/CNA
E.O. 11355; N/A
TAGS: BGR, ECON, ML, SF
SUBJECT: ADVOCACY EFFORTS FOR ENRON'S GAS PROJECT

REF: A) 94 MAPUTO 4894  B) 94 MAPUTO 5650
C) 94 MAPUTO 6280  D) 94 MAPUTO 6280
E) 94 MAPUTO 6280  F) MAPUTO 1598
G) USDOC 5210

1. (LOU) REFERS A THROUGH F CHRONICLE THE
DEVELOPMENT OF THE ENRON GAS PIPELINE PROJECT SINCE
LAST OCTOBER. REFIL D SPECIFICALLY SOLICITED
ADVOCACY SUPPORT DUE TO THE SIZE AND COMPLEXITY OF
THIS PROJECT. WHILE FOREIGN COMPETITORS SUCH AS
SAGOL AND ASEA BROW BOVERI HAVE SHOWN INTEREST
IN THIS PROJECT, ENRON IS CONFIDENT THAT ITS EXISTING
MEMORANDUM OF UNDERSTANDING WITH THE CGM ALLWAYS ANY
CONCERNS ABOUT DIRECT COMPETITION AT THIS TIME.
THERE ARE NO OTHER U.S. FIRMS COMPETING WITH ENRON
FOR THIS PROJECT. IN FACT, NUMEROUS U.S. FIRMS
SUCH AS DRESSER INDUSTRIES, DANIEL FLUR, AND MORGAN
BANK HAVE ALREADY EXPRESSED INTEREST IN WORKING
TOGETHER WITH ENRON AS CONTRACTORS, CONSULTANTS OR
SUPPLIERS.

[(b)(1)]
AND ENRON'S BOARD HAVE BLESSED THE PROJECT. ENRON AND THE IOC CAN NOW ENTER INTO FINANCIAL ARRANGEMENTS AND PARTNERSHIPS RELATING TO MAKING THE GAS PIPELINE AND IRON AND STEEL PLANT A REALITY. END SUMMARY.

2. (C) THE ROAD TO AN AGREEMENT WAS A LONG ONE, AND ONE WHICH WE MOSTLY SUMMARIZED LAST SEPTEMBER WHEN ENRON SIGNED THE HIA WITH MINISTRY OF INDUSTRY OUEMIR BALDI AND THE INDUSTRIAL DEVELOPMENT COMPANY GOVERNING THE IRON AND STEEL PLANT. [(b)(1)]

IN HIS STATEMENT TO THE PRESS, KACIAMAULA NOTED THE GREAT BENEFITS OF MISP TO MOZAMBIQUE, BUT STILL CANNOT WITHSTAND THE OUTSTANDING ISSUES SURROUNDING THE PROJECT: SITE SELECTION, WATER RESOURCES, ENVIRONMENTAL IMPACT, TRANSPORT OF IRON AND STEEL FROM SOUTH AFRICA, AND MAPUTO PORT DEVELOPMENT. THE PRESS PICKED UP ON THESE DURING THE ENSUING PRESS CONFERENCE AND TOOK THE OPPORTUNITY TO PIPER ENRON'S WAY WITH QUESTIONS.

3. (C) NOTWITHSTANDING, THE SIGNING CEREMONY AND PRESS CONFERENCE WAS ONE OF ENRON'S BEST LOCAL PUBLIC RELATIONS EFFORTS TO DATE AS KEY PEOPLE TO THE PROJECT MANAGED TO MAKE IT ON SHORT NOTICE TO WITNESS THE EVENT. PORTUGUESE TRANSLATION WAS AVAILABLE IN THE PERSON OF ENRON'S COUNTRY REPRESENTATIVE AUGUSTINOZAGARIAS WHO PLAYED A KEY ROLE THIS PAST YEAR IN MOBILIZING CRN SUPPORT FOR THE PROJECT. BUT NO ONE ELSE IS NOW LEAVING ENRON FOR A UNITED NATIONS JOB. ENRON'S HANDLING OF THE LOCAL PRESS: AFTER FIVE YEARS OF FLYING IN AND OUT OF THE COUNTRY, FINALLY REFLECTED A FULL GRASP OF MOZAMBIQUE SENSIBILITIES AND SHOWN THAT ENRON IS CLEARLY TAKING MOZAMBIQUE SERIOUSLY. IN ADDITION TO THE DIFFICULT JOB OF REPLACING ZAGARIAS.

ACCORDING TO MISP MANAGER BILL MANAGER, ONE OF ENRON'S FIRST ACTIONS WILL BE TO HIRE A LOCAL PUBLIC RELATIONS FIRM.

4. (C) WEBSTER AND WAAS SEEMED CONCERNED BUT NOT OVERLY DRAMATIC ABOUT THE PROSPECT OF REACTIVATING PARTNER IDC WHICH MAY NOT NECESSARILY BE A SURE THING. [(b)(1)]
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DEPT TREASURY COMCEN
PH 622-2222 RM 1121/MT

CONFIDENTIAL SECTION 02 OF 02 MAPUTO 08/174

PRETORIA PASS JOHANNESBURG FOR TCS - MAMOLD
PRETORIA FOR ECON - IRIIDIVIC
AGIDJAN FOR USD3/AFDB
USDPC FOR 451B ITA/EP/ANESA/DA/DODGERS
USDPC FOR ADVOCACY CENTER - SMALLAD
TREASURY FOR OSIA - ARALYE, NEPSTEIN, EBIRBER
DEPT PLEASE PASS TO USTR - RHWITALER, VVIALLE
DEPT FOR PI/PS: AF/PS, IF/CPS - MHCATA
DEPT PLEASE PASS TO USTR - MIEVEL, JR/CHTER
DEPT PLEASE PASS TO EXIMBANK - AEMET, KNOX/LYETY
DEPT PLEASE PASS TO OPIC - ROUGH, JPLOH.

F.O. 12558: FDC 06/02/84
TAC'S: EINL, SPET, ENRG, EFIN, ECON, M2, US
SUBJECT: ENRON SIGNS GAS FRAMEWORK AGREEMENT THAT GIVES GREEN LIGHT TO $2.5 BILLION RISP PROJECT

6. (O) INVITED CUESTS TO THE SIGNING CEREMONY INCLUDED THE COUNTRY REPRESENTATIVES FOR SAGOL AND ARCO. THE GROUP STUCK AROUND AND MADE A POINT OF TALKING INDIVIDUALLY WITH ENRON REPRESENTATIVES. THE BRITISH BORN SAGOL REP WANTED TO TALK, BUT WOULD HAVE TO CLEAT IT WITH SOUTH AFRICA FIRST. IN THE WAKE OF THE ANNOUNCEMENT OF ARCO'S MERGER WITH BP/AMOCO BY THE END OF THIS YEAR (SEPTEMBER), ARCO REPS SEEMED PRETTY OPEN TO TALKING WITH ENRON. LOOKING SUSPICIOUSLY LIKE JOB SEEKERS.

7. (O) WITH AGREEMENTS IN HAND, ENRON HAS TWO ANDorama YEARS TO SEARCH THE WORLD FOR PARTNERS: MADE OF STEEL, ENRON AND A REACTIVATED ITO'S WOULD PROVIDE HAF THE TOTAL EQUITY IN THE PROJECT, WITH THE REST COMING FROM STEEL OPERATORS AND TRADERS. BUT THE LIST OF POTENTIAL INVESTORS WAS SUBMITTED FROM THE ASIAN FLU. ONE ARE THE TAIWANESE AND KOREANS. REMAINING ARE
BUDGET WERE ALL CAPITAL EXPENSES AND THEREFORE DIFFICULT TO DISBURSE RAPIDLY AND ESTIMATED THAT THE EXECUTIVE COULD BE UNDERSPENDING AS MUCH AS FIFTY PERCENT OF THE FUNDS ALLOCATED. HE SUGGESTED THAT THEY COULD AGREE WITH THE NATIONAL ASSEMBLY ON ROLLING OVER UNEXPENDED FUNDS INTO THE FOLLOWING YEAR, AND LAIMED THAT THE LEGISLATURE WANTED TO "MAKE IT SEEM AS IF SOMEONE HAS DONE SOMETHING WRONG" IF FUNDS ARE NOT SPENT.


5. DAS RADELET POINTED OUT THAT THE GON WAS RUNNING OUT FOR THE GON TO CONCLUDE THE FENDER STAND-BY ARRANGEMENT (IBAI) WITH THE IMP. RADELET OPENED THAT IF THE CON DO NOT CONCLUDE AN SBA WITH THE FUND WITHIN THE FIRST FEW WEEKS IN MAY IT MAY BE NECESSARY NEGOTIATE A NEW AGREEMENT FROM SCRATCH. THE DEPUTY ASSISTANT SECRETARY point out THAT WITH INCREASED OIL REVENUES LIKELY TO ELIMINATE GOVERNMENT DEFICITS, THE FUND WOULD BE BASED ON THE QUALITY OF BUDGETARY ALLOCATIONS AND ON THE PROCESS OF PRIVATIZATION AS KEY ECONOMIC BENCHMARKS. RADELET ADDED THAT HE HAD ENCOURAGED MEMBERS OF THE NATIONAL ASSEMBLY TO INSURE THE BUDGETARY PROCESS FROM THE VOLATILITY OF OIL PRICES. THIS COULD BE ACHIEVED, HE SAID, BY ESTIMATING A REASONABLE PRICE FOR OIL AND THEN USING THAT SAME ESTIMATE IN PROJECTING REVENUES IN THE RESPECTIVE ANNUAL BUDGETS FOR TWO OR THREE CONSECUTIVE YEARS, AS IT IS DONE IN MALAYSIA AND INDONESIA.

6. CHIEF ASIODU WAS GRATEFUL FOR USG SUPPORT AT THE PARIS CLUB, AND HOPED THAT NIGERIA WOULD OBTAIN "SUSTAINABLE" DEBT RELIEF IF THE GON Meets IMF BENCHMARKS FOR NON-CONCESSIONARY RESCHEDULING. THE CHIEF ECONOMIC ADVISER WAS SATISFIED THAT THE UNITED STATES AND THE PARIS CLUB HAD AGREED TO ACCEPT A USD 1.5 BILLION CEILING FOR DEBT FINANCING PROPOSED BY THE GON FOR THE CURRENT YEAR. ASIODU OBJECTED TO CREDITOR UNCLAS SECTION 82 OF 83 ABUJA 1976
NATIONS' INSISTENCE THAT NIGERIA ESTABLISHES A REPAYMENT TRACK RECORD BEFORE DISCUSSING DEBT RELIEF. WE CONCEDED IT IS UNLIKELY THAT DEBT RELIEF WILL TAKE PLACE IMMEDIATELY, BUT WISHED THAT A COMMITMENT TO DEBT FORGIVENESS IN THE FUTURE BE PART OF THE DIALOGUE NOW. ASIODU EXPLAINED THAT THE GOVERNMENT WAS SPENDING ON FOREIGN DEBT FIVE TIMES THE AMOUNT DEDICATED TO EDUCATION, AND THAT NIGERIA NEEDED "ALL THE HELP IT CAN GET" FROM THE INTERNATIONAL COMMUNITY.

7. DEPUTY ASSISTANT SECRETARY RADELET NOTED THE IMPORTANCE OF THE GOVERNMENT MOVING AHEAD ON RESTRUCTURING PRIVATE SECTOR DEBT INSTRUMENTS, INCLUDING BRADY BONDS. IN THE CONTEXT OF THE OVERALL DEBT RESTRUCTURING, RADELET POINTED OUT THAT DELAYS IN ACHIEVING AN AGREEMENT WITH THE IMF AND THE PARIS CLUB WOULD MAKE IT MORE DIFFICULT TO ENSURE TOTAL DEBT SERVICE PAYMENTS FOR THE YEAR WITHIN THE USD 1.5 BILLION CEILING. SINCE QUARTERLY PAYMENTS WOULD BE DUE TO THE PRIVATE SECTOR (NOTE: THE CURRENT ALLOCATION OF THE USD 1.5 BILLION INCLUDES TWO QUARTERLY PAYMENTS TO PRIVATE SECTOR; A DELAY UNTIL SEPTEMBER WOULD REQUIRE A THIRD QUARTERLY PAYMENT), END NOTE.) CHIEF ASIODU RESPONDED THAT THE GOVERNMENT HAD BEGUN THE PROCESS OF RETAINING AN ADVISOR FOR RESTRUCTURING PRIVATE SECTOR DEBTS.

8. DEPUTY ASSISTANT SECRETARY RADELET REASONED THAT CREDITOR COUNTRIES WOULD LOOK FAVORABLY UPON NIGERIA IF THE PROPOSED BUDGET INCLUDES STRONG HEALTH, EDUCATION, AND OTHER SOCIAL SPENDING. ASIODU REPLIED THAT THE BUDGET CREATES A USD 1 BILLION POVERTY ALLEVIATION FUND AND THAT, IN ANY CASE, MOST OF THE BUDGET'S CAPITAL EXPENDITURES, SUCH AS ROAD, POWER OR WATER PROJECTS, WILL HAVE AN EFFECT ON POVERTY ALLEVIATION ABOVE AND BEYOND THE EARNINGS MADE. ASIODU ADDED THAT THE ESTIMATED USD 1 BILLION THAT NIGERIA HAS SPENT "DEFENDING DEMOCRACY IN LIBERIA FOR THE UNITED STATES, AND IN SIERRA LEONE FOR THE UNITED KINGDOM" SHOULD BE SOMEHOW TAKEN INTO ACCOUNT IN DEBT DISCUSSIONS (NOTE: GOVERNMENT'S CLAIM THAT IT HAS SPENT USD 1 BILLION IN PEACEKEEPING OPERATIONS IN LIBERIA AND SIERRA LEONE IS UNSUBSTANTIATED. END NOTE.)

9. CHIEF ASIODU DEFENDED THE GOVERNMENT'S PRIVATIZATION STRATEGY, PARTICULARLY ON THE POWER SECTOR. ACCORDING TO ASIODU, THE PRIVATIZATION OF THE NIGERIAN ELECTRIC POWER AUTHORITY (NEPA) REQUIRES THE RESTRUCTURING OF THE COMPANY TO MAKE IT MORE ATTRACTIVE TO INVESTORS. FURTHERMORE, NEPA'S PRIVATIZATION CAN NOT PRECEDE THE ESTABLISHMENT OF A REGULATORY ENVIRONMENT IN THE ELECTRICITY SECTOR. ASIODU EXPLAINED THAT THE WORLD BANK SUPPORTED GOVERNMENT'S PLANS TO "MAKE SURE THAT THE TERMS OF REFERENCE ARE CLEAR" BEFORE PROCEEDING WITH PRIVATIZATION, WHICH HE OPINED COULD START IN 2001 AND BE COMPLETED BY 2003. HE ADDED THAT HE FAVORED AN AMERICANA-STYLE MODEL OF ZONAL FRANCHISES OVER PLANS TO BREAK UP AND COMMERCIALIZE THE COMPANY ALONG GENERATION, TRANSMISSION AND DISTRIBUTION FUNCTIONS; ALTHOUGH NO DECISION HAD BEEN MADE YET ON THIS ISSUE (NEPA WILL BE AUDITED; HE SAID, TO INFORM SUCH DECISION). THE CHIEF ECONOMIC ADVISOR STATED THAT THE GOVERNMENT WILL APPROVE THE OPERATION OF INDEPENDENT POWER PROVIDERS (IPPs), INCLUDING MODU, ABB AND "MAIBA" ENRON.

10. CHIEF ASIODU REPLIED TO THE VIEW THAT SOME STATE OWNED ENTERPRISES WILL REQUIRE OVERHAULING BEFORE PRIVATIZATION. ASIODU EXPLAINED THAT THIS WAS PARTICULARLY THE CASE WITH SERVICE PROVIDERS SUCH AS POWER PLANTS AND REFINERIES, AS THE GOVERNMENT HAD A RESPONSIBILITY TO MAKE SURE THAT THE PUBLIC BENEFITS FROM THEIR PROPER OPERATION. AS RADELET NOTED THAT INVESTING NEW MONEY INTO LOSING STATE ENTERPRISES WAS A RISKY STRATEGY, SINCE THERE IS NO GUARANTEE OF GETTING THE MONEY BACK, CHIEF ASIODU RESPONDED THAT THE GOVERNMENT WOULD FACTOR THE COSTS OF RESTRUCTURING AND RESTRUCTURING PUBLIC ENTERPRISES WHEN THEY ARE PRIVATIZED.

11. ASIODU NOTED RECENT PROGRESS IN THE COMPLETION OF TURN-AROUND MAINTENANCE AT THE PORT HARCOURT REFINERY AND CONCEDED THAT A SIMILAR PROJECT FOR THE KAUNA REFINERY "HAD NOT BEEN SATISFACTORY" (NOTE: IN 1999, THE COMPANY TOTALS SIGNED BUT FAILED TO FULFILL A CONTRACT TO RENOVATE THE REFINERY; PURPORTedly FOR TECHNICAL REASONS. THE REFINERY UNCLASSIFIED SECTIONS 3 OF 83 ABUJA 8575.)

TREASURY FOR DAVID STEVEN RADELET

E.O. 12550: N/A
TAGS: EFIM FADU PREL N
SUBJECT: CHIEF ECONOMIC ADVISOR DISCUSSSES NIGERIAN ECONOMY WITH VISITING TREASURY DEPUTY ASSISTANT SECRETARY.

CONTINUES TO OPERATE WELL BELOW FULL CAPACITY. END NOTE.) ASIODU ALSO STATED THAT THE GOVERNMENT WAS CONSIDERING A NATIONWIDE AGRICULTURAL ASSURANCE SCHEME TO INCENTIVE FARMING, AND THAT THERE HAD BEEN TECHNICAL IMPROVEMENTS MADE ON THE NATIONAL FERTILIZING COMPANY OF NIGERIA (NAFCON).

INVESTMENT CLIMATE AND POLITICAL STABILITY

12. RESPONDING TO DEPUTY ASSISTANT SECRETARY RADELET'S...
13. GAS PROBLEM: ASIODO ASKED CHIEF ASIODO ABOUT THE GOVERNMENT'S CANCELLATION OF A 1993 $5 MILLION CONTRACT FOR THE REACTIVATION OF THREE GAS TURBINE UNITS AT THE EBEBIYEN THERMAL STATION IN LAGOS. NOTE: THE COMPANY ORIGINALLY AWARDED THE CONTRACT, NIFDASA, WAS IN PARTNERSHIP WITH GENERAL ELECTRIC AND BABBDOCK AND MOLSK, END NOTE.) ASIODO, IN A SOMETHING DEFENSIVE TONE, EXPLAINED THAT THE CONTRACT HAD BEEN CANCELLED "BEFORE IT CAME INTO EFFECT" MEANING THAT THE GOVERNMENT HAD NOT MADE ANY PAYMENTS TO NIFDASA BECAUSE IT WAS NOT CLEAR IF THE COMPANY HAD THE TECHNICAL KNOW-HOW TO PERFORM THE REHABILITATION OF THE TURBINES. ASIODO STATED THAT "IF THE COMPANY HAD NOT MADE ANY PAYMENTS TO NIFDASA BECAUSE IT HAD NOT BEEN AWARDED THE NEW CONTRACT, IT WOULD HAVE BEEN BETTER QUALIFIED TO REHABILITATE THE TURBINES," BECAUSE IT HAD "ALREADY BUILT THEM." CHIEF ASIODO MAINTAINED THAT, AT THE TIME THE CONTRACT WAS SIGNED, GE WAS NOT NIFDASA'S PARTNER, HAD TRADITIONAL CONTRACTS WHICH WERE DECREED TO THE GOVERNMENT DIRECTLY. HE ADDED THAT THE ISSUE OF TECHNICAL EXPERTISE MIGHT HAVE NOT ARISEN ASIODO CONCEIVED THAT THE GOVERNMENT HAD NOT EXERCISED "AL DUE DILIGENCE" IN THE MATTER. (NOTE AND COMMENT: NIFDASA WIS NEVER GIVEN THE OPPORTUNITY TO PERFORM THE SIGNED CONTRACT. CON OFFICIALS HAVE BEEN SURPRISED, UNCOMFORTABLE, WITH USC INQUIRIES ON THIS ISSUE. THE GOVERNMENT SEEMS TO WANT TO REVERSE THE EFFECT OF THE CONTRACT'S CANCELLATION. PARTICULARLY AFTER ENRON'S DECISIONS ON A DIFFERENT CONTRACT END NOTE AND COMMENT.)

14. ON A MORE REASSURING NOTE, ASIODO STATED THAT PROSPECTS FOR THE LONG-TERM POLITICAL STABILITY OF NIGERIA WERE GOOD, NOTWITHSTANDING RECENT CALLS FOR POLITICAL CONFEDERATION AND A NATIONAL SOVEREIGNTY CONFERENCE. HE POINTED OUT THAT HE WAS "NOT PARTICULARLY EXCITED ABOUT CONFEDERATION," ADDING THAT ITS PROponents HAD NOT EXPLAINED ITS MEANING, AND THAT THE ROLE OF THE CENTRAL GOVERNMENT WOULD NOT DISAPPEAR IN A CONFEDERATE STATE. ACCORDING TO ASIODO, NIGERIANS DO NOT WANT A CONFEDERATION, AS NORTHERNERS WANT TO BE ABLE TO SELL THEIR CATTLE TO THE REST OF THE COUNTRY AS MUCH AS SOUTHEASTERNERS WISH TO PROTECT THEIR OUT-OF-STATE INVESTMENTS. THERE ARE, HE ADDED, OVER 25 NATIONAL MINORITY GROUPS IN NIGERIA, MOST OF WHICH WISH TO THE CENTRAL GOVERNMENT FOR PROTECTION.

15. CHIEF ASIODO STATED THAT THERE ARE THOSE WHO FORGET THAT THERE IS A SOVEREIGN GOVERNMENT ALREADY IN PLACE IN
From: ex.mail."LandbergCA@state.gov"
To: ex.mail("DelaterIA@state.gov", "WattaM@state.gov", "...
Date: 3/5/00 5:21pm
Subject: FW: MIGA guarantees for DR

As you can see in the attached document from Treasury, the MIGA Board will consider and vote on a DomRep power project on Tuesday, March 14. Treasury is asking State **(b)(5)**

Your comments are requested by early afternoon Friday. If there is a consensus that we do want to take this action, it seems to me that we would want to follow up on it, directly to the GORDR and maybe to the DR Embassy, if only to lessen the perception that we’re just being petty. I’m open to suggestions. Please pass this email to anyone else who should see it.

thanks, chris

-----Original Message-----
From: Greg.Christopoulos@do.treas.gov
[mailto:Greg.Christopoulos@do.treas.gov]
Sent: Tuesday, March 07, 2000 3:19 PM
To: LandbergCA@state.gov; wattaM@state.gov
Cc: Gay.Sillos@do.treas.gov, Gary.Sampliner@do.treas.gov
Subject: MIGA guarantees for DR and Nicaragua -Forwarded

Date: 03/07/2000 03:17 pm (Tuesday)
From: Greg Christopoulos
To: Landberg, wattaM
CC: DOM3, DOPOK, SAMPLINER, SILLOS
Subject: MIGA guarantees for DR and Nicaragua -Forwarded

**(b)(5)**
THE ABOLITION PANEL SMITH-ENRON SIGNED ITS CALLED RATIFICATION AGREEMENT WITH CDE ON JUNE 18. THE AGREEMENT RESOLVES ALL THE CLAIMS IN DISPUTE UNDER THE ABOLITION OF THE MARCH GOVERMENT IN MEXICO CITY. THIS AGREEMENT ALSO RATIFIES THE FINAL AGREEMENT OF UNDERSTANDING SIGNED BY THE TWO PARTIES IN DECEMBER 1998 WHICH WILL FORM THE BASIS FOR THE PREPARATION OF AN AGREEMENT BETWEEN THE TWO PARTIES.

1. (a) AS REPORTED REFEL, IN MARCH CDE AGREED TO PAY US$21 MILLION PLUS INTEREST IN SETTLEMENT OF THE THEN APPROXIMATELY US$63 MILLION IN DISPUTE BETWEEN THE TWO PARTIES. THIS WAS BY FAR THE LARGEST PORTION OF CDE'S DISPUTED DEBT.


THE PROJECT WILL DEFAULT NONTHELESS

((b)(4), (b)(6))

DISCOM/GENCO CLOSING

7. (a) THE MONIES FROM THE US$72 MILLION FUND WILL EVENTUALLY RELIEVE SMITH-ENRON'S DIFFICULTIES BUT THEY WILL NOT BECOME AVAILABLE UNTIL THE CAPITALIZATION CLOSING DATES OF THE NEW DISCOMS AND GENCOs. CREE PRESIDENT ISA CONDE RECENTLY VOTED ON A CONVERSATION WITH AN ENRON REPRESENTATIVE THAT THE DISCOM CLOSING WILL NOT OCCUR.

[(b)(4)]
8. Other IPP sources had recently expressed their concern to Enoch that Enron would try to postpone the GENCO closing because of difficulties within its consortium (led by Seaboard) and in getting financing. These sources also believed that Enron would resist UNCLAS Section 2 of 02 Santo Domingo 882724

SENSITIVE

DEPT PASS OPIC FOR M. PEREIRA AND M. N. NEUMANN
DEPT PASS USDOE FOR MARO
USDOC FOR 213/JUS/CG/01/WJ/RE
USDOC FOR 4321/IT/107/E1/09/WJ/OMC/SIEGELMAN

E.O. 12958: N/A
TAGS: ENRG ENV PRD OR
SUBJECT: SMITH-ENERG SETTLES ONCE AGAIN

SENSITIVE

CLOSING IN ORDER TO MAINTAIN ITS LEVERAGE IN PUSHER FOR A SMITH-ENERG SETTLEMENT, THE SETTLEMENT, HOWEVER, OBLITERATES ONE OF THESE DIFFICULTIES. [(b)(5)]

THAT TO THE MARO SPEAK AT LENGTH THE AFTERNOON OF JUNE 18 WITH A GERMAN BANKER WHO HAD COMMENTED TO HIM THAT THE SETTLEMENT WILL MAKE THE FINANCING OF ANY POWER SECTOR PROJECT IN THE DOMINICAN REPUBLIC MORE ATTRACTIVE.

[(b)(4)]

9. The Bisco/Gencos closings are unlikely to happen in the normal 30 day period. Smith-Enron will have to "force" the default. In these circumstances:

[(b)(4), (b)(6)]

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FINAL STEP IN DISPUTE RESOLUTION

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[[(b)(5)], [(b)(6)]

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10. If the final step in the resolution of the Smith-Enron dispute will be the submission of the revised contract to the Congress, when asked if he was concerned about the reception it is likely to get in the Congress: [(b)(5)]

[(b)(4), (b)(6)]

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COMMENTS

11. This settlement is a substantial victory for Smith-Enron and for the [[(b)(6)]]

THAT IT HAS SOLVED A DIFFICULT PROBLEM FOR ENRON BOTH IN TERMS OF ITS INTERNATIONAL IMAGE AND ITS ABILITY TO CONTINUE TO PARTICIPATE IN THE ATTRACTIVE DOMINICAN POWER MARKET. [(b)(6)]

IT IS PLANNED THAT ENRON WILL NOT USE THE RESOURCES OF THE GENERADORA RAINA PROJECT IN THE ABSENCE OF THIS SETTLEMENT. [(b)(4), (b)(6)]

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THE SETTLEMENT WILL ALSO LESSEN INVESTOR CONCERNS ABOUT THE DOMINICAN POWER SECTOR PROJECTS. THESE CONCERNS ARE NOT LIKELY TO BE COMpletely ALLEVIATED UNTIL AFTER THE DISCO/GENCOS SETTLEMENTS YIELD THE UNDISCLOSED MILLION FUND. PAYMENTS ARE MADE OUT OF THE FUND; AND THE ESSION ACCOUNT FACILITY IS SET UP FOR PAYMENT OF THE REMAINING IPP DEBT. THE SETTLEMENT IS, HOWEVER, ANOTHER MAJOR STEP IN THE RIGHT DIRECTION.

[(b)(5), (b)(6)]

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VATT
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PARTIES HAVE BEEN ENGAGED IN THE NEGOTIATION OF A RATIFICATION AGREEMENT FOR THE FINAL MOU AND FINANCIAL SETTLEMENT. THESE NEGOTIATIONS ARE HEADING TOWARDS BREAKDOWN. [(b)(4)]

BACKGROUND

4. ISBUI [(b)(6)] in the original loan agreement, the lenders wanted as security certain conditions and guarantees. [(b)(4)]

COE PROPOSAL REMOVES IMPORTANT FINANCIAL GUARANTEE

[(b)(4)]

THE IFC HAS ORGANIZED A TELECONFERENCE ON MARCH 30 BETWEEN THE LEADERS AND COE. AN OFFICIAL FROM THE COMMISSION FOR THE REFORM OF PUBLIC SECTOR COMPANIES (CEP) WILL ALSO PARTICIPATE IN THAT CALL TO ARGUE THAT THE MOU SIGNED FEBRUARY 18 BETWEEN THE INDEPENDENT POWER PRODUCERS AND THE CEP WILL CONSTITUTE A SUFFICIENT GUARANTEE FOR THE LEADERS. END SUMMARY.

3. ISBUI SMITH ENRON [(b)(6)]

PROVISION (i.e., the proposal that a renewed letter of credit would not be issued for the revised contract) had not previously been proposed by COE. THE IFC HAS NOTIFIED SMITH ENRON THAT IF THAT FINANCIAL GUARANTEE VANISHES, THE IFC WILL NOT GIVE THEIR BLESSING TO ANY CHANGE IN THE POWER PURCHASE AGREEMENT.

00500000001345
CREP TO THE RESCUE?

8. [SB] [b][4] RECOMMENDED ON CREP PRESIDENT ANTONIO ISA CONCE CONCE ON FRIDAY, MARCH 26. IN THEIR DISCUSSION.

UNCLASSIFIED SECTION 62 OF 82 SANTO DOMINGO D01467

DEPT PASS OPC FOR M PEREIRA AND K MUNNIEK
USDOC FOR 3134/USCG/010/VI/RO
USDOC FOR 4221/ITA/IEP/VI/OMDB/STEGELMAN

SENITIVE

E.O. 12958: N/A
TAGS: ENG EHV PREL OR
SUBJECT: SMITH ERROR DEAL IN DANGER

5. (SB) ALTHOUGH THE ISSUES OF RATIFICATION (OR NOT) BY THE DOMINICAN CONGRESS AND THE TIMING OF SUSPENSION OR WITHDRAWAL FROM THE ON-GOING ARBITRATION ARE TOUGH ONES, THE LETTER OF CREDIT ISSUE SEEMS MOST LIKELY TO BE A FINAL DEALBREAKER.

[(b)(4), (b)(6)]
Subject: Power Plant Seizure Update No. 2

Below please find my translation of a press release issued today by
the CDE.

Press Release
April 27, 1998

The Administrator General of the Dominican Electricity Corporation
(CDE), Engineer Rhadamés Segura, assured yesterday that the
reinforcement of the security in the installations of the Los Mina
Plants V and VI of the AES Dominican Power was his responsibility as
it was a decision taken by himself.

The executive manifested that said private generator had acted in an
irrational manner in recent days by drastically reducing its
production as a form of pressure in order to collect a debt that the
energy company of the State had never denied to pay.

Segura expressed that he authorized a reinforcement of security at
midday Friday at the installations of AES Dominican Power on the basis
that their attitude and threat to take out their generators from
service was acting in detriment of the national interest and against
the security of the State.

In a press conference celebrated in the Conference Room of the CDE,
Engineer Segura, in reference to the supposed intervention of North
American embassy in the impasse arisen between the parties, stated
that this diplomatic legation does not support the contract
noncompliance that said private generator practiced for which reason
he said that he could not explain why the media gave the subject the
treatment that does not correspond to the intentions of this
administration.

He pointed out that when he has met with representatives of the US
Embassy in various opportunities, there has always existed a spirit of
cordiality and respect and for that reason he did not believe that the
same entity will call the National Palace to intervene in a conflict
arising between the two electric companies.

He insured that historically the AES Dominican Power had presented a
problem for the CDE given the constant problems that have occurred in
their two generators and additionally that in the past they had failed
to live up to promises made about returning to service after
confronting technical difficulties.

Regarding the military personnel that went to reinforce the security
in the installations of the two generators of the AES Dominican Power,
Segura stated that he gave instructions to the General Supervisor of
the CDE, Contralmirante José Peña y Peña to act in that fashion.
First, Coronel Luis Felipe Martinez Scott of the Naval marines was
sent with soldier Miguel Sosa Tolentino and that later Captain Martin
Muñoz Jimenez was sent with a lieutenant and a sergeant followed ten
minutes later by two more officers.

In relation to the functioning of the two generators being referred to,
the attached graphic (Not Obtained), the supply of electricity was only 51.7% of the contracted energy. This signifies that the plant failed to supply some 224.42 million kilowatt hours during the months of January to March of this year equivalent to an economic loss in detriment to the national economy of some US$ 56.1 millions which is called the cost of energy not served in economic terms.

Segura pointed out that neither the CDE nor the Dominican Government have pressured the AES Dominican Power for these serious contractual failures even though in a meeting celebrated by the President of the Republic, Dr. Leonel Fernández Reyna, with representatives of said firm and with the American Embassy, the same company promised to have available the two units by February 27th of this year, a promise that was not kept, only one unit being on line at that date.

Ing Segura indicated that on April 24th operations at the Plant Los Mina abruptly dropped their contribution to national power from 105Mv to 50MW, an act that provoked unprogrammed interruptions in the distribution system.

Communications Director.

This press release was followed by a legal statement on the subject which has been translated by Cesarina and will be distributed shortly as LEGAL STATEMENT RE MILITARIZATION.

Saludos, [(b)(6)]
CDE'S LEGAL STATEMENT - RE: MILITARIZATION

CDE'S LETTERHEAD PAPER
CORPORACIÓN DOMINICANA DE ELECTRICIDAD

The Corporación Dominicana de Electricidad (CDE) signed a contract of purchase-sale of energy with the firm Dominican Power Partners (AES). In conformity with said contract, we are in front of what in law is denominated "A concession of Public Service", which is when it is given, during a determined time period the management of a public service to a private enterprise, which then becomes a collaborator of CDE's Administration, to whose control it remains subject, and that is paid by means of energy invoices submitted to the users of the service. Consequently what AES is providing is a public service, which, in written sense, is now under the special judicial regulations, which imply for CDE's Administration a series of prerogatives and powers aside from the common rights, with the purpose to make easier the continuous and regular management of this public enterprise.

It is denominated as Service of Public Utility, to certain lucrative activities, that are performed by particular persons, but that, for their need for the public, must be submitted to a regime of vigilance and tutelage by the Estate, that is capable of assuring in every moment its maintenance, continuity, efficiency and its fair price.

This service is submitted to a formal and specific legislation, contained in the Law No. 848, dated February 23, 1933, on the performance of the services of Public Utility. Articles 1 and 6 of said law, establish textually the following:

Art. 1 - The performance of all Public Utility Services shall be under the super vigilance and the control of the state, as Services of Public Utility will be considered, the supply of electricity for lighting, energy or other purposes, the supply of water, the services of Telephones, Telegraphs, Radiotelegraphs and the others for which purpose and nature are declared included in this category by the Executive Power.
Art. 6. - All interruption or suspension of a service, that by its nature should be "CONTINUOUS", that could cause the damage to the public order or to the health of the population, will be punished with a fine of fifty to five hundred pesos, when the company that provides it is not able to demonstrate that the interruption or suspension is not due to its own fault, but to unknown causes that could not have been solved by the appropriate means. The judges will issue the fines according to the seriousness of the circumstances and the time of the interruption. If the interruption or suspension be definitive or too frequent, the Executive Power is entitled to act, for by recommendation of the Public Service Commission, the cancellation of the authorization provided for the establishment of the service in question.

This Press Release is signed by CDE's Administrator, Radhamés Segura
March 27, 1994
STATE PASS EXIMBANK FOR HUTCHINSON AND RITA MURRELL

SENSITIVE

E.O. 12550: N/A

SUBJECT: THE POLITICS OF POWER: WILL THE NEW MAHARASHTRA GOVERNMENT REVIEW THE TERMS OF EKON PHASE I?

1. ISSU (ISU) ALMOST IMMEDIATELY AFTER THE NEW MAHARASHTRA GOVERNMENT WAS FORMED, THE MEDIA BEGAN PLOWING UP REPORTS THAT THE NEW CHIEF MINISTER WAS READY TO CALL FOR AN IMMEDIATE REVIEW OF PHASE II OF EKON'S DUBAI POWER PROJECT. THE CONGRESS PARTY HAD PROMISED, IF ELECTED, TO REVIEW EKON PHASE II, WHICH HAD RECEIVED THE GOVERNMENT FROM THE BHARAT SIND/BJP GOVERNMENT. WITH THE GOVERNMENT STILL FINDING ITS LEGA, WE HAVE NOT BEEN ABLE TO MAKE CONTACT WITH ANY OF THE RELEVANT OFFICIALS. BUT CHIEF MINISTER DESHMUKH TOLD THE HEAD OF A LEADING INDIAN CONSULTING FIRM IN A ONE-ON-ONE MEETING THAT STATEMENTS ABOUT A REVIEW WERE NOT MORE THAN POLITICAL WINDOW DRESSING. MEANWHILE, EKON'S PUBLIC RELATIONS MANAGER, BRINDA VALAVAR, SAID THE COMPANY HAS SEEN NO INDICATIONS THAT A REVIEW IS IMMINENT. SHE ATTRIBUTES THE STATE OF MEDIA STORIES TO THE PRESS'S DETERMINATION TO CREATE A STORY DURING THE LULL THAT HAS ACCOMPANYED THE FORMATION OF THE GOVERNMENT. SHE NOTES THAT THE CHIEF MINISTER NEVER BROUGHT UP EKON INDEPENDENTLY, BUT ONLY MENTIONED IT IN RESPONSE TO REPORTERS' QUESTIONS. SHE BELIEVES THAT...
STATE PASS TO EX-IM BANK FOR JULIE PANARO
STATE PASS TO ORIC FOR ATABEY, BTBEWARE, CENGSTROM
STATE PASS TO TDA FOR DITSTEIN
USDOC FOR 600/TA/TD/ASAC/BRANDES/STICHUNG
USDOC FOR 3159/US/EO/OS/EUR/BRADLEY/POZAR
USDOC FOR 4212/ITAC/MAC/OPAR/CPDD/DYFALCO
USDOC FOR 6190/ITAC/DOB/MARIM/BEEHAN
E.O. 12958: N/A
TAGS: ENRG, BTBC, EINV, EXIM, TUR
SUBJECT: U.S. ENERGY PROJECTS IN TURKEY - THE YEAR IN REVIEW


TURKEY DAM AND HYDROELECTRIC POWER PLANT PROJECTS (HEPP)

ARE WELL ON THEIR WAY TO OBTAINING ALL NECESSARY GOVERNMENT APPROVALS TO CONCLUDE THEIR FINANCING WITH TURKISH TREASURY.

PROJECTS INCLUDE:

PROJECT: HAKKARI DAM AND 208 MW HYDROELECTRIC POWER PLANT
COMPANY: WASHINGTON GROUP INTERNATIONAL (FORMERLY RAYTHEON)

PROJECT: ALPASLAN II DAM AND 200 MW HYDROELECTRIC POWER PLANT PROJECT
COMPANIES: ICF KAISER AND HARZA ENGINEERING
STATUS: CONTRACT SIGNED. FINANCIAL AGREEMENT TO BE SIGNED SOON. COMPLETION OF DESIGN AND ENGINEERING EXPECTED IN 2001. CONSTRUCTION TO BEGIN IN 2002.

PROJECT: KONAKTEPE DAM AND 210 MW HYDROELECTRIC POWER PLANT PROJECT
COMPANY: STONE & WEBSTER INTERNATIONAL
STATUS: CONTRACT SIGNED. FINANCIAL AGREEMENT TO BE SIGNED SOON. COMPLETION OF DESIGN AND ENGINEERING EXPECTED IN 2001. CONSTRUCTION TO BEGIN IN 2002.

PROJECT: KARGI DAM AND 194 MW HYDROELECTRIC POWER PLANT PROJECT
COMPANY: BLACK AND VEATCH
STATUS: CONTRACT SIGNED. INITIAL APPROVAL OF THE STATE PLANNING ORGANIZATION GRANTED. AWAITING FINAL APPROVAL TO BEGIN NEGOTIATIONS WITH TREASURY. CONSTRUCTION TO BEGIN IN 2001.

PROJECT: GURSOGUT DAM AND 242 MW HYDROELECTRIC POWER PLANT PROJECT
COMPANY: LEYMA INTERNATIONAL
STATUS: CONTRACT SIGNED. INITIAL APPROVAL OF THE STATE PLANNING ORGANIZATION GRANTED. AWAITING FINAL APPROVAL TO BEGIN NEGOTIATIONS WITH TREASURY. CONSTRUCTION TO BEGIN IN 2001.

PROJECT: PERVARI DAM AND 192 MW HYDROELECTRIC POWER PLANT PROJECT
COMPANIES: PARSONS AND ICF KAISER
STATUS: CONTRACT SIGNED. ACCORDING TO STATE PLANNING OFFICIALS, PROJECT IS INCLUDED IN THE TURKISH GOVERNMENT'S 2001 INVESTMENT PROGRAM. FINANCIAL NEGOTIATIONS WITH TREASURY TO FOLLOW. DESIGN/ENGINEERING IN 2001 AND BEGIN CONSTRUCTION IN 2002.

PROJECT: ERIC DAM AND 170 MW HYDROELECTRIC POWER PLANT PROJECT
COMPANY: BLACK & VEATCH
STATUS: CONTRACT SIGNED. ACCORDING TO STATE PLANNING OFFICIALS, PROJECT IS INCLUDED IN THE TURKISH GOVERNMENT'S 2001 INVESTMENT PROGRAM. FINANCIAL NEGOTIATIONS WITH TREASURY TO FOLLOW. DESIGN/ENGINEERING IN 2001 AND BEGIN CONSTRUCTION IN 2002.

PROJECT: DURAK DAM AND 120 MW HYDROELECTRIC POWER PLANT PROJECT
COMPANIES: HARZA ENGINEERING, CLARK CONSTRUCTION
STATUS: CONTRACT SIGNED. ACCORDING TO STATE PLANNING OFFICIALS, PROJECT IS INCLUDED IN THE TURKISH GOVERNMENT'S 2001 INVESTMENT PROGRAM. FINANCIAL
NEGOTIATIONS WITH TREASURY TO FOLLOW. DESIGN/ENGINEERING IN 2001 AND BEGIN CONSTRUCTION IN 2002.

PROJECT: MUT DAM AND 91 MW HYDROELECTRIC POWER PLANT PROJECT
COMPANY: WASHINGTON GROUP INTERNATIONAL (FORMERLY MORRISON KNUDSEN INTERNATIONAL)
STATUS: DUE TO MERGER OF MORRISON KNUDSEN INTERNATIONAL WITH WASHINGTON GROUP INTERNATIONAL, THE CONSORTIUM HAS NOT YET BEGUN NEGOTIATIONS FOR THE DESIGN/ENGINEERING CONTRACT WITH DSI. ACCORDING TO STATE PLANNING OFFICIALS, PROJECT IS INCLUDED IN THE TURKISH GOVERNMENT'S 2001 INVESTMENT PROGRAM. FINANCIAL NEGOTIATIONS WITH TREASURY TO FOLLOW. DESIGN/ENGINEERING IN 2002 AND BEGIN CONSTRUCTION IN 2003.

SURUC IRRIGATION PROJECT

3. DURING PRESIDENT CLINTON'S NOVEMBER 1999 VISIT TO TURKEY, UNDERSECRETARY YIGITGOZEN OF THE MINISTRY OF ENERGY AND NATURAL RESOURCES AND ASSISTANT SECRETARY OF COMMERCE FOR TRADE DEVELOPMENT CORPS SIGNED A JOINT STATEMENT FOR THE TURNKEY DESIGN AND CONSTRUCTION OF THE SURUC IRRIGATION NETWORK. AMERICAN AND TURKISH FIRMS WILL IMPLEMENT THE PROJECT, AT A COST OF OVER USD 650 MILLION, WHICH INCLUDES A NETWORK TO IRRIGATE APPROXIMATELY 10,000 HECTARES OF LAND. UNTIL NOW, 24 AMERICAN AND TURKISH CONSORTIA HAVE EXPRESSED INTEREST IN THE PROJECT. THE EMBASSY IS WORKING WITH THE GÖT TO IDENTIFY A PROCESS BY WHICH TO SELECT THE WINNING CONSORTIA.

BUILD OPERATE (BO) POWER PLANT PROJECTS

4. IN 1997, THE TURKISH ELECTRICITY GENERATION AND TRANSMISSION COMPANY (TEAS) AWARDED FIVE BUILD-OPERATE (BO) PROJECTS IN GEBZE, ADAPAZARI, IZMIR, ANKARA AND KIRSEHIR. INTERGEN, A BECHTEL/SHLL JOINT VENTURE, WON THREE OF THESE PROJECTS AND IS DUE TO COMPLETE THEIR WORK AND COMMISSION THE PLANTS WELL AHEAD OF SCHEDULE. THE EMBASSY WORKED CLOSELY WITH INTERGEN, U.S. EXIMBANK AND OPEC TO ENSURE THAT THE FIRM IS ABLE TO MEET ITS AGGRESSIVE IMPLEMENTATION PROGRAM. EXIMBANK WILL FINANCE OVER USD 950 MILLION WORTH OF U.S. EQUIPMENT AND SERVICES AND OPECO USD 300 MILLION OF U.S. INVESTMENT FOR ALL THREE PROJECTS.

PROJECTS INCLUDE:

PROJECT: ADAPAZARI 777 MW NATURAL GAS FIRED POWER PLANT PROJECT
COMPANY: INTERGEN (BECHELET/SHLL JOINT VENTURE)

PROJECT: GEBZE 1554 MW NATURAL GAS FIRED POWER PLANT PROJECT
COMPANY: INTERGEN

PROJECT: IZMIR 1523 MW NATURAL GAS FIRED POWER PLANT PROJECT
COMPANY: INTERGEN
STATUS: GROUND BREAKING CEREMONY WILL BE HELD IN JANUARY 2001. POWER PLANT TO BE IN COMMERCIAL OPERATION IN 2002.

BUILD-OPERATE-TRANSFER (BOT) PROJECTS

The text above is a natural language representation of the document.
5. During the 1990s, the Ministry of Energy and Natural Resources awarded hundreds of build-operate-transfer (BOT) projects to Turkish and foreign firms. In late 1994, U.S. companies, Enelio and Edison Mission completed and began operation of the Trakya Elektrik and Dogan Enerji Bot gas-fired power plants, respectively. During President Clinton's November 1999 visit to Turkey, American consortiums signed contracts for two more bot gas-fired power plant projects. In addition, another U.S. firm continues to try to obtain approval for a coal-fired power plant project.

PROJECTS INCLUDE:

PROJECT: ESKISEHIR 200 MW NATURAL GAS-FIRED POWER PLANT PROJECT
COMPANIES: AES, GVA
STATUS: CONTRACT SIGNED, COUNCIL OF MINISTERS APPROVED
THE PROJECT WITH A DECREES ON 11/3/00, COMPLETION OF
FINANCIAL PACKAGE EXPECTED IN EARLY 2001, WITH START OF
CONSTRUCTION TO FOLLOW IMMEDIATELY, COMMERCIAL OPERATION EXPECTED BY END OF 2002.

PROJECT: 206 MW ZONGULDAK ALAPLI (ATAM ELEKTRIK) NATURAL
GAS-FIRED POWER PLANT PROJECT
COMPANIES: G2 POWER SYSTEMS AND G2 CAPITAL
STATUS: CONTRACT SIGNED, COUNCIL OF MINISTERS APPROVED
THE PROJECT WITH A DECREES ON 10/24/00, COMPLETION OF
FINANCIAL PACKAGE EXPECTED IN EARLY 2001, WITH START OF
CONSTRUCTION TO FOLLOW IMMEDIATELY, COMMERCIAL OPERATION EXPECTED BY END OF 2002.

PROJECT: 300 MW KONYA ILGON POWER PLANT AND MINING
PROJECT
COMPANIES: JPEG, NORTH AMERICAN COAL
STATUS: JPEG AND MENR HAVE A NUMBER OUTSTANDING ISSUES,
ON WHICH THEY DO NOT AGREE, AFFECTING THE FINANCIALITY
OF THE PROJECT. JPEG SUBMITTED ITS FINAL PROPOSAL TO
MENR AT THE END OF OCTOBER 2000. PROJECT SHOWS LITTLE
MOVEMENT. THE EMBASSY CONTINUES TO ADVOCATE ON BEHALF OF
JPEG AND NORTH AMERICAN COAL.

TRANSFER OF OPERATING RIGHT PROJECTS

6. The Turkish Electricity Generation and Transmission Company (TEAS) held a tender in 1996, to transfer the operating rights of 12 existing power plants for 20 years to the Turkish and foreign private sector. A consortium led by U.S. firm NRG won two of the ten. These projects are:

PROJECT: 629 MW SEYITOMER COAL-FIRED POWER PLANT
COMPANY: NRG
STATUS: CONTRACT SIGNED, COUNCIL OF MINISTERS APPROVED
THE PROJECT WITH A DECREES ON 07/18/00. NRG INITIATED ITS
AGREEMENTS WITH TEAS IN DECEMBER 2000 AND DELIVERED THEM
TO TURKISH TREASURY FOR REVIEW. COMPLETION OF FINANCING EXPECTED BY THE END OF MARCH 2001.

PROJECT: 457 MW KANGAL COAL-FIRED POWER PLANT
COMPANY: NRG
STATUS: CONTRACT SIGNED, COUNCIL OF MINISTERS APPROVED
THE PROJECT WITH A DECREES ON 08/09/00. NRG INITIATED ITS
AGREEMENTS WITH TEAS IN DECEMBER 2000 AND DELIVERED THEM
TO TURKISH TREASURY FOR REVIEW. COMPLETION OF FINANCING EXPECTED BY THE END OF MARCH 2001.

7. The Turkish Ministry of Energy and Natural Resources (MENR) held a tender in 1997, to transfer the operating
RIGHTS OF 25 ELECTRICITY DISTRIBUTION GRIDS FOR A PERIOD OF 90 YEARS TO THE TURKISH AND FOREIGN PRIVATE SECTOR. MENR AWARDED ONE TENDER TO A CONSORTIUM INCLUDING HOWARD ENERGY.

PROJECT: BURSA-YALova ELECTRICITY DISTRIBUTION
COMPANY: HOWARD ENERGY
STATUS: CONTRACT SIGNED BUT AWARDS COUNCIL OF STATE
DANISTAYAPPROVAL, COURT HEARING ON THE VALIDITY OF CONTRACT HELD ON OCTOBER 3, 2000, RESULTING IN A NEGATIVE DECISION, WHICH MENR HAS APPEALED. THE DANISTAY'S SUPREME BOARD OF JUDGES WILL REVIEW THE DECISION EARLY NEXT YEAR.

RENEWABLE ENERGY

8. THE TURKISH GOVERNMENT EXPECTS ENERGY CONSUMPTION TO INCREASE BETWEEN 8-10 PERCENT PER YEAR OVER THE NEXT DECADE. IT MUST INCREASE THE NUMBER OF GENERATION PLANTS TO MEET THAT DEMAND, WHILE AT THE SAME TIME, MINIMIZING THE ADDITIONAL POLLUTION THAT THESE PLANTS WILL EMIT. IN ADDITION, TURKEY WANTS TO PROTECT ITS ENERGY SECURITY TO ACHIEVE THESE GOALS, THE TURKISH GOVERNMENT HAS AWARDED TENDERS FOR A NUMBER OF RENEWABLE ENERGY PROJECTS. U.S. FIRMS ARE IN THE PROCESS OF IMPLEMENTING THE FOLLOWING PROJECTS, USING THE BUILD-OPERATE-TRANSFER (BOT) MODEL.

PROJECT: 25 MW AYDIN GERMENCIK GEOTHERMAL POWER PLANT
PROJECT COMPANY: ORMAT
STATUS: CONTRACT SIGNED. COUNCIL OF MINISTERS APPROVAL EXPECTED SHORTLY. POSSIBILITY OF INCREASING PLANT CAPACITY TO 120 MW EXISTS.

PROJECT: 25 MW CESME KOCADAG WIND POWER PLANT
COMPANY: PRINCETON DEVELOPMENT AND STERLING ENERGY SERVICE
STATUS: STATE PLANNING ORGANIZATION APPROVAL GRANTED IN 2000. CONTRACT NEGOTIATIONS CONTINUE.

PROJECT: 39 MW CANAKKALE WIND POWER PLANT
COMPANY: CANNON INTERNATIONAL
STATUS: STATE PLANNING ORGANIZATION APPROVAL GRANTED IN 2000. CONTRACT NEGOTIATIONS CONTINUE.

PROJECT: 50.4 MW CESME KOCADAG WIND POWER PLANT
COMPANY: CANNON INTERNATIONAL
STATUS: STATE PLANNING ORGANIZATION APPROVAL GRANTED IN 2000. CONTRACT NEGOTIATIONS CONTINUE.

PROJECT: MAMAK WASTE POWER PLANT (14 MW)
COMPANY: U.S. - TURKISH JOINT VENTURE: TURK AMERICAN INTERNATIONAL ENERGY VENTURES
STATUS: STATE PLANNING ORGANIZATION APPROVAL GRANTED IN 2000. CONTRACT NEGOTIATIONS WITH THE ANKARA MUNICIPALITY CONTINUE.

9. COMMENT: AS THIS LIST SHOWS, U.S. FIRMS HAVE PLAYED A TREMENDOUS ROLE IN MEETING TURKEY'S ENERGY NEEDS, USING EVERY INVESTMENT MODEL. IT HAS NOT BEEN EASY TO DEVELOP THEIR PROJECTS. INDEED, IT HAS TAKEN YEARS AND VERY SIGNIFICANT RESOURCES TO RESOLVE ALL THE CHALLENGES THAT THESE COMPANIES HAVE FACED. THE TURKISH GOVERNMENT IS AWARE OF THE DIFFICULTIES AND APPRECIATES THE PATIENCE AND DEDICATION U.S. COMPANIES HAVE SHOWN TO DATE.

10. THE TURKISH GOVERNMENT IS IN THE PROCESS OF INTRODUCING LEGISLATION, WHICH IT EXPECTS WILL CREATE A LIBERALIZED ENERGY SECTOR IN TURKEY BY 2003. THE GOVERNMENT HOPES THAT A LIMITED NUMBER OF CONTRACTS CURRENTLY UNDER
FINAL NEGOTIATION (INCLUDING SEVERAL ON THE LIST ABOVE) WILL MEET TURKEY'S ENERGY GENERATION NEEDS UNTIL THIS TRANSITION IS COMPLETE, AFTER WHICH TIME COMPANIES WILL BE FREE TO DEVELOP THEIR PROJECTS WITH CONSIDERABLY LESS GOVERNMENT INTERFERENCE. WE EXPECT THAT U.S. COMPANIES WILL CONTINUE TO PLAY A VERY LARGE ROLE IN MEETING TURKEY'S ENERGY NEEDS UNDER THE NEW REGIME. END COMMENT.

ISO

#8414
Secretary Rubin will be visiting at an optimistic, even heady time for Mozambique. Economic restructuring, though not complete, has made a tremendous difference in the psychology of the place, as evidenced by the Harvard Institute for International Development/World Economic Forum 1998 African Competitiveness Report which ranked Mozambican businesses the most "optimistic" of those in 23 African countries surveyed. Since then, qualification for massive debt relief under the Highly Indebted Poor Countries (HIPC) initiative has further brightened the outlook for the country. It has been the government's willingness and ability to successfully undertake economic reform, however, that has made this war torn country so confident about its own future.

The positive results of economic reform are obvious. All indications are that a period of rapid economic expansion has begun. Economists are revising 1997 estimates of growth upward from 8 percent to 12 percent. Domestic credit to the economy in 1997 grew 44 percent in real terms, and is expected to grow another 30 percent in 1998. Major foreign investment projects are beginning to materialize, most noticeably the $1.3 billion MOZAL aluminum smelter, the $2.5 billion Maputo Integrated Steel Project, the $500 million Gencor Heavy Sands processing and smelter project in the north, and the $300 million Maputo Corridor Toll Road.

While the economic reform effort over the past three years has been comprehensive, it is still unfinished. The successes scored in 1996 and 1997 have convinced most rank and file officials of the correctness of the government's course, and most have become willing collaborators. The reform effort will have to deepen over the next few years to meet increasing demands on the government from the public and from major foreign investors. The lack of human capacity within government and the country at large is acute. For this reason, human capacity building must be structured into every aspect of foreign assistance. As Minister of Planning and Finance Tomáz Salomão recently emphasized, "We have to train, train, train."

One question on the minds of Mozambicans is how Mozambique will be treated under the President's Partnership for Economic Growth and Opportunity. Short listed but excluded from the itineraries of a number of high level U.S. official visitors the past 12 months, the GRM is wondering whether its reform effort has been recognized by Washington, HIPC notwithstanding. Secretary Rubin's trip is an excellent opportunity to convey to the GRM that Washington is aware of the success story being written here, and that there is an appropriate place for Mozambique within the President's Partnership with Africa.

On the table with Mozambique is a U.S. bilateral investment treaty (BIT). The GRM has accepted the premise of a U.S. BIT, and wants to move rapidly on it. With Enron, Arco, Cabot, the Railroad Development Corporation, and Seaboard investing
sizable sums in this country, it behooves us to move on a BIT. Secretary Rubin's trip provides an opportunity to underscore the importance of a BIT, and to advocate on behalf of these American companies, each of which has an investment project before the government.

Since 1995, the Ministry of Planning and Finance under Minister Salomão has provided strong, unwavering leadership within the government for reform. In particular, the ministry has held the line on new spending, while shifting increasing emphasis toward health and education and away from defense. The ministry has introduced new methods that have brought greater transparency and clarity to the budget process. And, the ministry has been an unwavering proponent of reform, using its political and bureaucratic muscle to push other ministries and agencies forward.

One example has been Customs reform, where private management, closure of loophole duty exemptions, and an overall reduction of tariffs have had a dramatic impact on operations and revenues. Though private management of customs began only in May, 1997 and tariffs had been substantially reduced only six months earlier, customs receipts for 1997 increased 28 percent. The next step is to introduce new legislation and streamlined procedures to facilitate rather than hinder international commerce.

Another example has been the Center for Investment Promotion (CPI). Once an investment approval agency which hindered investment, CPI has been transformed into a true investment promotion agency. Fernando Sumbana, CPI's activist director appointed in 1997, has extended CPI's mandate to include lobbying other agencies and offices within government to streamline their permit and licensing procedures. He also assumed a leadership role within government in advancing the MOZAL aluminum smelter project (the first Industrial Free Zone investment for Mozambique) and the Maputo Integrated Steel Project (MISP).

At present, the Ministry of Planning and Finance is absorbed with the introduction of a VAT tax system, which is desperately needed to replace the existing system of taxes which cumulate transaction by transaction and are a disincentive to formal sector activity. Legislation will be considered in 1998, but implementation has been delayed until April, 1999 to allow adequate preparation time and to avoid association with or compounding holiday seasonal inflation at the end of the year.

Working closely with the Ministry of Planning and Finance, the Bank of Mozambique (BOM) under Governor Adriano Malelane has done an outstanding job of controlling inflation, fostering a suitable environment for the financial sector to grow, and managing foreign exchange. BOM policies brought inflation down from a high of 70 percent in 1994, and have kept it down for the last 26 months. Inflation was less than 6 percent in 1997.
and so far in 1998, the IMF reports that inflation has hovered near zero. Low inflation and a liberalized foreign exchange regime have translated into stable foreign exchange rates and resurgent demand for the local currency, the metical. One result has been the almost embarrassing accumulation of foreign exchange reserves, now seven months worth of imports and growing.

All banks operating in Mozambique are now private, a major accomplishment. To do it, the GRM had to first create and then privatize both the Banco Comercial de Moçambique (BCM, privatized in 1996) and the Banco Popular de Desenvolvimento (BPD, privatized in September, 1997). Under the supervision of the Bank of Mozambique, new banks have entered the market and/or have increased their national presence and share capital. As fast as the BOM can develop necessary regulatory and/or supervisory procedures, new products and services have been introduced. Most recently, the establishment of an interbank money market has improved market liquidity. A new law governing checks was passed. And now, credit and debit cards can be found. Expected soon is the launch of a small stock exchange in Maputo, where the government can market shares retained in privatized companies. And finally, the BOM is considering issuing domestic debt to facilitate the indirect management of money supply.

Since 1989 legislation to facilitate the sale of state-owned assets, over 840 companies have been privatized. Particularly successful has been the UTRE program for large enterprises, administered by the Ministry of Planning and Finance with assistance from the World Bank. At this point, UTRE is running out of companies to privatize and is preparing to close its doors on a successful program. The program for smaller companies, GREICT, under the Ministry of Industry, Commerce, and Tourism, has been proceeding at an accelerated pace of late, and may well be able to close its doors in 1999. Additionally, the GRM has undertaken to sell houses, buildings, and real estate it expropriated when the Portuguese left the country at Independence.

Some parastatals have remained under the control of their respective ministries, but have been forced to function on a commercial basis. Such is the case with the national port and rail, telephone, electric, airline, and fuel distribution companies, which now function autonomously from government in liberalized sectors. One positive result has been that subsidies to parastatals have been reduced to less than one percent of government expenditures. In 1997, the government announced plans to privatize water companies and willingness to license private power producers and distributors. In the future, the government might sell some of its interest in these enterprises to the public or to strategic foreign investors, and open competition in these sectors is foreseen.

Though the financial sector has certainly led the reform effort, no sector has been left untouched. Telecommunications,
transportation (land, sea, and air), energy, health, labor, agriculture and fisheries have all been subject to major changes in legislation and/or liberalization the past two years. While more needs to be done, almost every ministry and certainly the few remaining parastatals have had to rethink their roles and missions. The ministries of Education, and Agriculture and Fisheries have lagged, but are now undertaking comprehensive reform. The effort to reform the Commercial Code under the Ministry of Industry, Commerce, and Trade has been difficult since it involves coordination among a number of ministries, including the Ministry of Justice. As the Ministry of Planning and Finance accomplishes its most important tasks, what is needed is for other economically oriented ministries to assume leadership to further reduce red tape and administrative barriers to business.

Sound fiscal and monetary management, successful economic reform, and impressive statistics have provided the right environment to attract critical foreign investment. More than $6 billion in realizable foreign investment, led by the South Africans and the U.S. is expected to materialize over the next five years. Major investment projects in very advanced stages are listed below.

- Gencor/Billiton has begun preparations to construct a $1.3 billion aluminum smelter outside Maputo. This is the first of several megaprojects to get started. Construction is scheduled to begin the first week of July; work on erecting transmission lines through South Africa and Swaziland has already begun.

- Enron and Industrial Development Corporation of South Africa have traveled the long route to devise the $2.5 billion Maputo Integrated Steel project (MISP), which should be reviewed and, hopefully, approved by the Council of Ministers on or by July 7.

- In June, Arco announced its program to spend $60 million on natural gas exploration in conjunction with SASOL of South Africa. The intention is to pipe gas to Secunda, South Africa for use at SASOL's synfuel plants there. Fluor Daniel did the feasibility study on a (app.) $600 million pipeline.

- Construction of the new $300 million Maputo Corridor toll road began in May. A one-stop border crossing will be built. The road should shorten travel time to Johannesburg and Pretoria to six hours.

- Cabot Corporation of Boston plans to start rehabilitating a tantalite mine in Zambezia Province in September at a cost of $30 million. Cabot is currently negotiating with partners to double its one-third interest in the project.

- The Railroad Development Corporation of Pennsylvania and Edlow Resources of Washington, D.C. are part of a
consortium which is negotiating long term concession rights to invest in upgrading and managing port and rail services along the northern Nacala Corridor. Up to $80 million may be involved.

In addition to ongoing tax, customs, and commercial code reform, what will be needed to support this level of investment is improved infrastructure, a judicial regime that inspires confidence, and a strong GRM focus on building human capacity.

Mozambique has natural gas, coal, and hydropower and the energy sector has attracted considerable foreign investor attention. A new energy policy has provided the framework for the government to concession almost all available territory in Mozambique’s sedentary basin for oil and gas exploration. Those engaged include major international companies such as Enron, Arco, British Petroleum, Lonropet (a division of Lonrho), SASOL, as well as junior companies such as the Canadian Scimitar, Antrim, and Canops companies, and Norwegian Norbay. Of this group, British Petroleum and Lonropet have made it clear that they are looking primarily for oil.

In Tete Province, Cahora Bassa Dam, the second largest in Africa, can produce 1700 MW (firm) of power. Repair of war-damaged transmission lines from the dam to South Africa and Zimbabwe was completed in 1997, enabling the export of 900 MW to South Africa, 500 MW to Zimbabwe. The dam is 82 percent owned by the Portuguese Government (which just announced its intention to sell), and 18 percent owned by the Mozambican government. A European funded feasibility study will soon get started to determine whether to develop the North Shore of Cahora Bassa and/or build a second major dam downstream on the Zambezi River. Nearby at Moatize, the U.S. Trade and Development Agency is considering whether to fund a feasibility study to gauge the prospect of using steam coal to fuel a 1000 MW power plant. The additional power may be piped to Beira and then on to Maputo, or feed into the newly created Southern Africa Power Pool under SADC.

Mozambique promises to be an important supplier of transportation services to South Africa, Swaziland, Zimbabwe, Malawi, Zambia, and Botswana. In addition to the northern Nacala Corridor, major investments are expected from the chosen private managers of the Port of Maputo and southern rail systems. Management of the Port of Beira and the central rail system should be privatized next in 1999. In 1997, the government launched a TVA like effort to develop the Zambezi River Valley, along the war damaged Sena rail line from Beira, passed sugar plantations now undergoing privatization and on to Tete Province and the Moatize coal fields, where coking coal is abundant. The African Development Bank funded Louis Berger International to analyze the restructuring of Mozambican Airports, opening the way for private management concessions in most every area. Meanwhile, road, coastal shipping, and air transportation has also been liberalized.
7 Of greatest concern in the political sphere is the institutionalization of democracy. While the Parliament has matured somewhat, the system established to hold elections has not instilled confidence among the opposition parties, causing most, led by RENAMO, to withdraw from participation in the June 30 local elections. The existence of an guard in both the ruling party FRELIMO and the main opposition party RENAMO has hampered compromise. This has showed itself most recently in the differences between the two over election administration. The government needs to understand the importance of making progress in this area.

Of greatest concern in the economic sphere is completing the task of unencumbering the private sector from government red tape and legal bottlenecks. High on the list is Commercial Code reform, tax reform, and the land tenure system. Of these, the most problematic is land.

All land is owned by the state. Land-use concessions are granted for periods of 50 years with "automatic" renewal and the system has been fraught with irregularities and opportunities for corruption. While individuals may own improvements on land, they may not own the land itself. This generates uncertainty for investors and means that land cannot be used as collateral for loans. While there is a need to sort out small holder claims and communal rights in rural areas, Mozambique also should look at privatizing urban land, as has been done in Uganda. This would allow commercial real estate to be used more efficiently, allow private enterprise to respond quickly to opportunities in a rapidly growing economy by permitting land to be used as loan collateral, and put forth a model for the later privatization of rural land, especially for commercial agriculture.

Also of concern is corruption. Unlike many African countries, Mozambique does not have a long history of corruption. The problem grew during the transition years 1989-1995 when inflation gutted government salaries and officials were unsure what would happen after the December, 1994 general elections. With excessive privatization, regulatory reform, and market liberalization, corruption has been on the decline, but has persisted. The government has embarked on civil service reform designed to instill greater professionalism and raise salaries to retain the most qualified. More needs to be done. In 1997, the Parliament voted down the Ministry of Planning and Finance proposal to create an independent higher authority on corruption in favor of strengthening the current judicial system, which functions poorly and is unlikely to effectively combat corruption. We are working to establish a local chapter of Transparency International to provide a public voice on the issue. To mitigate risks for foreign investors, Mozambique should ratify the New York Convention on Arbitration as soon as possible. Whatever the form, Mozambique needs to address corruption before it becomes part of the culture and challenges its nascent democracy.
Also of considerable concern is establishing a sound basis for balanced development. While true that most major foreign investments at this time target Maputo, there are several focusing on the center and north of the country where many natural resources are located, including arable land of which only half is farmed.

Agriculture will be central to the long-term development of the nation and is crucial to the survival of three-fourths of the population, which derives its livelihood from the land. Just three years after the successful resettlement of war refugees in 1993-94, the country became virtually self-reliant in grain production, but this is subject to good rains. With the exception of cotton and sugar where commercial investments are being made, rapid growth in agriculture is unlikely due to poor small holder farming methods and weak rural markets. Transportation infrastructure and rural market development have been key elements in assisting Mozambican agriculture, and comprise an important part of our AID program in the country.

(SESAV 717)
INDIA
($ in thousands)

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**Rationale for prioritization** - India has offered the U.S. full cooperation and logistical support, to include overflight, refueling and turnaround, access to ground facilities, seaports and airports, in addition to the use of Indian soil for staging and transit, including strike aircraft, ground forces, naval units and other combat assets. Foreign and Defense Minister Jaswant Singh publicly confirmed India’s unprecedented offer of support on September 14, saying India was willing to provide logistical support to and serve as a staging area for U.S. military forces. India is also a front-line state grappling with terrorism in Kashmir and is concerned that U.S. efforts to include Pakistan in the coalition will be at the expense of its new, much broader and deeper relationship with the U.S. The A key GOI priority, nuclear-related (Glenn Amendment) sanctions against India were lifted on September 22, thus allowing for broader bilateral and multilateral economic engagement.

**Economic and Development Assistance** - India received approximately $5 million in ESF funding in FY01, dedicated primarily to financial markets reform. $7 million has been requested for FY02. Additional funds would focus on economic growth assistance, agricultural and food security, good governance and basic education. $58 million is requested for FY02 to support women’s empowerment, child survival, family planning, HIV/AIDS, energy and environment and financial markets programs. Current supplemental requests being discussed do not envision an increase in DA.

**Military/Security Assistance** - India receives U.S. grant security assistance in the form of IMET. India received $498,000 in FYOL. The Department requested $650,000 for FY02 and PM has recommended that India receive $1 million in IMET funds in FY03. FMF awaits reconstitution at the bilateral Defense Policy Group.

**Humanitarian Assistance** - Food Assistance -- India receives food assistance under USDA’s 416(b) program. 20,000 MT of 416(b) food aid has been approved for FY01. $64 million of Title II food aid has been approved for India in FY01. In FY02, we are requesting $80 million. We prefer OMB approval of additional Section 416(b) resources first, and Title II resources second.

**Trade Options/Tools** - The U.S. absorbs 23% of India's exports ($10 billion). A WTO member, India is our fifth largest GSP beneficiary. Although India had previously lost half of its GSP access due to IPR concerns and has exceeded the program's competitive need limits for some products, a substantial portion of these benefits have now been restored. USTR Zoellick announced a $540 million non-IPR-related GSP package in August. India has a textile quota agreement with the U.S. covering $2.7 billion in exports.
in 2000. The quotas must be progressively eliminated by January 1, 2005. Ex-Im is open across the board in India, but India has never been a large Ex-Im market (note that the Enron/Dabhol problem may preclude additional Ex-Im/OPIC assistance if not speedily resolved). India has never been a candidate to negotiate a BIT.

**International Financial Institutions - IMF.** India does not have or seek an IMF program. **MDBs.** IDA-Blend; India is an active borrower from both the World Bank and the ADB. India has its largest exposure to IDA ($19 billion) of any World Bank member, and is one of the top 6 borrowers from IBRD ($7 billion). The World Bank’s lending program for India is $3 billion ($2 billion IBRD, $1 billion IDA) over the period 2002-04. Scope for supporting additional lending is limited. Indeed, by FY05, IBRD lending must be scaled back to avoid exceeding India’s lending ceiling. Scope for additional IDA lending is limited by India’s slow implementation and poor track record of success.

**Debt Options.** India is able to service its debt and is unlikely to request debt relief from the USG. Outstanding debt to the USG is $2 billion; external debt burden is 25% of GDP. The estimated budget cost to reduce 100% of India’s debt would be $1.7 billion; the cost of an illustrative Naples terms reduction would be roughly $570 million (unilateral) and $540 million (multilateral). In FY 2002, payments of $348 million are coming due. The cost to reschedule this amount bilaterally is $42 million, assuming a 4.5% interest rate.
At the April 7 board meeting on Korea, the IMF determined that, given Korea’s progress, future reviews of the stand-by arrangement will take place semiannually, rather than quarterly. The next IMF review will likely take place in [early September] and the next board meeting is scheduled for _______. Check Treasury

Six more disbursements, totaling about $1.5 billion ($245 million each), remain to be paid out to Korea, the final one being scheduled for November 2000. Korea has already repaid about $8.5 billion of its IMF borrowings.

Under the IMF appropriations legislation of last year, the Secretary of the Treasury is required, prior to each disbursement of IMF funds under Korea’s existing Standby Arrangement, to certify to Congress that Korea has either met all of the conditions of its Standby Arrangement or has committed to a timetable to do so. To date Treasury has provided three such certifications, and would need to do so again before the next disbursement, which is expected to take place in early September.

It should be noted that, according to Treasury, the conditions are not given equal weight. They are divided into structural performance criteria, which are specific targets that must be met, and benchmarks, which should be met but which are treated as lesser commitments. All of the trade-related conditions are benchmarks.

I. ELIMINATION OF TRADE-RELATED SUBSIDIES:

• Credited by IMF as done. IA will continue to monitor.

II. PHASE-OUT OF IMPORT DIVERSIFICATION PROGRAM (IDP):

• The last 16 items were eliminated on schedule on June 30, 1999. This is six months earlier than the date to which Korea committed as part of its OECD accession. The 16 items are listed below. This condition has now been completed.

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</tr>
<tr>
<td>8458 11 0000</td>
<td>Numerically controlled lathes</td>
</tr>
<tr>
<td>8516 60 2000</td>
<td>Electric rice cookers</td>
</tr>
<tr>
<td>8521 10 2000</td>
<td>Video recorders (magnetic tape)</td>
</tr>
</tbody>
</table>
III. ADJUSTMENT TARIFFS:

- Credited by IMF as done. Technically correct, but the manner in which it was done leaves some tariffs at the higher "adjusted" levels (see previous reports).

IV. IMPORT CERTIFICATION PROCEDURES:

- Credited by the IMF as done. Passage of required legislation and issuance of necessary implementing regulations is ongoing.

- The Korean government undertook an internal review of 54 laws and regulations related to imports and import clearance, the results of which the Ministry of Commerce, Industry, and Energy (MOCIE) announced in August on schedule, thus complying with the IMF condition. According to Embassy Seoul, as of [May 6], 26 of the changes (whether by legislation, enforcement decree, regulation, or guideline) were completed. Check with Embassy/Econ

V. BINDING OF KOREA’S OECD COMMITMENTS ON FINANCIAL SERVICES IN THE WTO:

- The Korean government bound its OECD accession commitments on financial services with the WTO on January 1999. Certain cross-border services were excepted. Treasury continues to negotiate with the ROKG, and reports that progress is being made.

- Korea submitted a revised GATS financial services schedule to the WTO in January 1999 that reflected most, but not all, of its OECD financial services commitments in terms of commercial establishment. Korea chose, however, not to bind any of its OECD commitments for cross-border provision of financial services. In response to Treasury's concerns, Korea agreed in February to bind a number, but not all, of its cross-border OECD commitments. Korea did not agree to any significant improvements in issues of commercial establishment. In a follow-up letter, Treasury requested that Korea bind: a stronger commitment for establishment of 100% owned foreign bank subsidiaries,
commitments for trading in three types of financial instruments (derivatives, exchange and interest rate instruments, and bullion and other negotiable instruments), and the full range of information and advisory services. We have also requested that Korea bind remaining commitments for cross-border services, including for life insurance and financial information and advisory services, in which Korea made no cross border reservations under the OECD. In a letter of May 20, 1999, Korea agreed to bind three more areas: commercial presence for 100% bank subsidiaries and trading of derivatives, exchange rate and interest rate instruments, and other negotiable instruments, and mode 2 foreign exchange trading services. We have told the Koreans this still is not enough and are developing a written response to that effect which draws on OECD Secretariat expertise.

VI. EQUITY/PRIVATIZATION:

This area falls under the Macroeconomic Policies section of Korea’s Letter of Intent to the IMF. However, privatizations are of interest to potential U.S. investors. Following is the status of privatization of various government-owned or -invested entities in Korea:

- The National Textbook Company, Korea Technology Banking Corporation, and Namhae Chemical Corporation have been privatized.
- POSCO sale of 5.8% has reduced public ownership to 20.8%
- Bidding for Korea Heavy Industries (Hanjung), originally scheduled for February, has been delayed.
- Korea General Chemicals pending
- Korea Ginseng and Tobacco, Korea District Heating will occur in phases over the next four years.
- Korea Gas (KOGAS): after short-listing three candidates (Osaka Gas, British Gas, GIC-Singapore), KOGAS called off the process. Enron bid from the U.S. Possible IPO in the fall.
- Daehan Oil Pipeline will go forward but only with local companies bidding the first round. No interest from foreign companies.
- Korea Power Company (KEPCO): currently 53.2% government-owned, 46.8% private (19% U.S., 27.8% Korean).
- Korea Telecom has been publicly listed and the ROKG will reduce its share to 33.4% by 2000.
1. ISU Report: On May 29, the Turkish government paid Enron's Trakya and Edison Mission's Doga projects for Outstanding Electricity Bills from February. Turkish Treasury is preparing a Supplemental Fund of 400 trillion Lira (roughly USD 400 million) to allow the state energy companies to pay their bills over the next four months while they set their financial houses in order. Company officials are pleased; although they remain concerned about unpaid foreign exchange differential bills. End Summary.

2. ISU officials at DOE Energy Mission and Trakya Electric Enron confirmed that the Turkish State Electricity Transmission and Generation Company (TEAS)
6. ISBU (b)6) BETWEEN JUNE AND JANUARY, TEAS WILL GRADUALLY RAISE ITS PRICES TO BOOST ITS CASH FLOW. TEAS INTENDS TO RAISE THESE PRICES FROM THE CURRENT LEVEL OF 4.3 CENTS PER KILOWATT HOUR TO 5.11 CENTS IN DECEMBER. FOR THE YEAR, AKTUCAN BELIEVED TEAS WOULD BE ABLE TO MEET THE YEARLY AVERAGE TARGET OF 4.5 CENTS PROVIDED BY THE WORLD BANK.

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NOTIFICATION TO ENRON THAT IT WAS NOT GOING TO HONOR ITS COUNTER-GUARANTEE ON DABHOL (REF). THE GOI'S CHANGE IN POSITION FROM EARLIER—WHEN IT HAD CLEARLY STATED ITS INTENT TO HONOR THE CONTRACT IF THE STATE COULD NOT PAY HAS SURPRISED ENRON/DPC. [b](4)

(D) NOTE: SINCE NSG HAS PAID THE JANUARY BILL AND THE STATE GUARANTEE HAS JUST NOW BEEN INVOKED FOR JANUARY, ONLY THE DECEMBER BILL IS UNDER DISPUTE IN ARBITRATION. HOWEVER, THE DAMAGE AMOUNT CAN BE AMENDED TO INCORPORATE SUBSEQUENT NON-PAYMENTS IF THE ARBITRATION DRAGS ON. END NOTE.]

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STATE PASS EXM/PK/FOR RITA KURPSELL/PEYNA SCHNEIDER
STATE PASS OPIC FOR BRIDGET WILLIAMS AND RUTH ANN NIGASTRI
STATE PASS USTR FOR RICK KULICK
STATE PASS SEC FOR MARISA LAGO
STATE PASS TO CURRAN AT SAN FRANCISCO FED
TREASURY FOR SEETHA RAO

USDOC FOR 313/1/CIO/ANES/AKRENNAN
USDOC FOR 1539/PAC/OSAQ/ASTERN
USDOC FOR RHADING

SENSEITIVE
E.B. 12558: M/A
TAGS: ENRG, EFIM, ECOM, EING, IN

SUBJECT: DABHOL POWER COMPANY CALLS FOR ARBITRATION

REF: NEW DELHI 2397


2. (SUB) DPC'S ACTIONS CAME IN THE WAKE OF LAST WEEK'S GOI

2. (b)(4) COMMENT: THE LATEST PAYMENT BY ENSON COMES AS A SURPRISE CONSIDERING THAT, UNTIL NOW, THE STATE HAD HELD THE POSITION THAT IT HAD NO FUNDS AVAILABLE TO PAY ENSON/IPC, AND EVEN IF IT DID, IT WOULD NOT PAY ENSON/IPC BECAUSE IT CONSIDERED THE PAYMENT EXPENSIVE. EVEN AFTER ENSON/IPC HAD INSISTED ON THE MARRAKASTA GOVERNMENT COUNTER-GUARANTEE LAST WEEK, ALL INDICATIONS WERE THAT THE STATE WAS WAITING FOR THE CENTER TO BAIL IT OUT. MEANWHILE, MEDIA REPORTS HAVE QUOTED THE CENTER AS INSISTING THAT IT WOULD MAKE GOOD ON ITS OBLIGATIONS AND PAY ENSON/IPC IF NECESSARY, A WELL-PLACED SOURCE IN THE MARRAKASTA GOVERNMENT TOLD CONDEMNED THAT THE MARRAKASTA GOVERNMENT MINISTER INFORMATION MINISTRE JACOB, NATIONAL CONGRESS PARTY LEADER SIVARAM PARMAR AND THE PRIME MINSTER'S OFFICE WERE WORKING HARD TO FIND A "WIN-WIN SOLUTION" TO THIS ISSUE. THIS SOURCE Further INDICATED THAT "THE MARRAKASTA GOVERNMENT WANTS TO STEP IN WITHOUT GIVING THE APPEARANCE THAT IT HAS STEPPED IN." THIS JIBES WITH WHAT (b)(4) AMBASSADOR CELESTE LAST WEEK -- THAT THE GOI WAS "IN THE MOUTH" TO ACCEPT ADDITIONAL POWER OR HELP DISTRIBUTE ENSON POWER TO OTHER STATES AND THAT MARRAKASTA GOVERNMENT MINISTER PRAHLAD "WANTS TO RESOLVE THE ENSON ISSUE AND HONOR GOI COMMITMENTS." 

(b)(4)

THE MARRAKASTA's NEW WILLINGNESS TO TALK AND MAKE A PARTIAL PAYMENT IS ENCOURAGING. IT IS CLEAR THAT THE STATE IS FEELING MORE PRESSURE FROM THE CENTER ON GOVERNMENT BUSINESSES CONCERNED ABOUT LAST WEEK'S DOWNGRADING OF MARRAKASTA'S CREDIT RATING, AND PERHAPS EVEN THE SMALLER GOVERNMENT WHOSE REPS WERE IN TOWN LAST WEEK TO CHECK OUT THE ENSON SITUATION NOW IS COMMITTED TO SUPPLYING A LARGE QUANTITY OF LPG TO THE ENSON PLANT. WHETHER THE STATE'S POSITIVE MOVEMENT WILL CONTINUE REMAINS TO BE SEEN. END COMMENT.