

JPMorganChase
270 Park Avenue, 29th Floor
New York, New York 10017

January 14, 2008

Amy Davidsen
Director, Office of Environmental Affairs

Re: Gilgel Gibe III Hydropower Dam, Ethiopia

Dear Ms. Davidsen:

We are writing to express our deep concern regarding JPMorgan Chase's consideration of the provision of a \$400 million commercial loan to the Government of Ethiopia for its controversial Gilgel Gibe III Hydroelectric Dam project.¹ We note that JPMorgan Chase has not only its own environmental policies but has also adopted the Equator Principles and has committed to extending those principles to "all loans, debt and equity underwriting, financial advisories and project-linked derivative transactions where the use of proceeds is designated for potentially damaging projects." In this case, the use of loan proceeds would be for a damaging project that is in violation of national environmental and procurement laws as well as relevant international standards. We believe that JPMorgan Chase should give the highest consideration to the dramatic environmental and social impacts associated with the project, as well as the financial risks it creates for Ethiopia.

The Gilgel Gibe III project would cost about €1.4 billion, and consists of the construction of the largest dam in Ethiopia and a powerhouse which will generate 1,870 MW. A fact-finding mission carried out in November 2007 by the non-governmental organizations Campagna per la Riforma della Banca Mondiale (CRBM) and International Rivers confirmed significant concerns about the project planning and procurement processes which had already been raised in Italian and Ethiopian media in the last two years. We would be glad to share the mission report with your office once it is complete in coming weeks. In the meantime, we would like to bring to your attention the following immediate concerns:

Illegal Procurement. The Engineering Procurement Construction (EPC) Contract between the Ethiopian Electric Power Corporation (EEPCo) and the Italian firm Salini Costruttori for the construction of Gilgel Gibe III Dam was signed in July 2006 following a direct negotiation. No international tender was called, contradicting the internal legislation issued by the Ethiopian Ministry of Finance and Economic Development. This practice is out of compliance with European Union legislation on public procurement as well as the procurement guidelines of the World Bank, African Development Bank, and European Investment Bank.

Investigations are underway regarding the contract procurement and financing of the nearly-complete Gilgel Gibe II Dam. In 2006, members of the Ethiopian Parliament raised concerns over the project's direct contract procurement used by the same parties, EEPCo and Salini. Italy's Ministry of Foreign Affairs is under criminal investigation by the Finance Police of Rome for corrupt actions associated with its approval of a €220 million loan for Gilgel Gibe II, the biggest loan ever granted by the Italian revolving fund, after negative opinions were issued by its own internal Evaluation Team and the Ministry of Economy. The decision to approve the loan has been

¹ Addis Fortune – www.addisfortune.com: "Ethiopia - EEPCo Closing in \$400m Deal with JP Morgan" - visited on December the 18th 2007.

the subject of two points of order in the Italian Parliament, in 2004 and 2006, respectively. Ironically, the loan was given shortly after a decision by the government of Italy to cancel €367 million of bilateral debt to Ethiopia. The problems of Gilgel Gibe II raise concerns about the possibility of corrupt, illegal and/or unethical practices involved in the contract procurement and financing of Gilgel Gibe III. Financial involvement in this project could risk the reputation of JPMorgan Chase.

The Ethiopian Energy Sector. Gilgel Gibe III represents a tripling of Ethiopia's current domestic demand and is part of an aggressive energy plan by the government of Ethiopia to build surplus power for export, raising concerns about the prioritization and financial risk of developing this and other large hydrodam projects.² Although EEPCo is undertaking an aggressive expansion of its domestic distribution system, peak demand as of January 2006 stood at less than 600 MW and the nation is not expected to be able to absorb supply from Gilgel Gibe III. Electricity from Gilgel Gibe III is earmarked for export (to Kenya, as confirmed by Ethiopian officials) yet there is no power purchase agreement close to being put in place. This export-oriented project is a questionable priority for the government of Ethiopia, especially in light of investments needed in order to meet the Millennium Development Goals which could directly address the country's grave poverty. The current generation and grid expansion require an additional €3 to 4 billion of investment just to complete the construction of ongoing projects in the next few years. These investments are also putting EEPCo's financial health at risk, a situation to which the World Bank publicly expressed alarm in 2005.³ Until recently, the World Bank and IMF discouraged the government of Ethiopia from guaranteeing a commercial loan from JPMorgan Chase. However, the government's risky decision to guarantee this loan is reportedly why the loan negotiation has been able to advance.

Environmental Non-Compliance and Negative Impacts. The construction of Gilgel Gibe III dam has already started without receiving the required environmental permit from the national Environmental Protection Authority (EPA), a violation of Ethiopia's Environmental Policy. At the present time, EEPCo reports that construction of the project is already 13% complete, and the Omo River will soon be diverted. Yet the EPA states that they have yet to receive the Environmental Impact Assessment (EIA) of the project. The same lack of compliance with the national environmental policy was seen during construction of Gilgel Gibe II project.

The EIA, prepared by Italian consultant, CESI, and disclosed in late 2007 by the Italian Export Credit Agency, SACE, is wholly inadequate according to international best practice. It excludes any assessment of downstream impacts associated with the building of the new dam. The Omo River, which flows south a further 600 km downstream of the dam's site, crosses the Omo National Park, an area of great biodiversity in Africa and populated by more than fifteen different indigenous groups still engaged in traditional agricultural and pastoral activities. The construction of such a mega-dam will alter the river flows and could cause serious impacts to downstream ecosystems. We note that JPMorgan Chase's forestry policy says that it will not support projects that would significantly convert or degrade critical natural habitat, with the definition of critical natural habitat including "existing protected areas and areas officially proposed by governments as protected areas" such as the Omo National Park. The Omo River empties into Lake Turkana (a cross-

² There are four additional hydroelectric plants under construction which will be commissioned prior to Gilgel Gibe III: Gilgel Gibe II (428MW), Tekeze (300 MW), Tana Beles (400 MW) and Ameshi-Nerte (40MW). The additional four projects (two nearing completion) will add 1,168 MW to the supply.

³ Addis Fortune, January 2005, "World Bank Wary about EEPCo's Financial Position," Available at: <http://www.ethiopians.com/forum/viewtopic.php?t=630>.

boundary lake), and crosses the Lower Omo Valley, which was designated a UNESCO World Heritage Site in 1980.⁴

Upstream of the dam site, a 150 km long reservoir will be created, flooding a unique canyon. The reservoir will submerge 500 hectares of agricultural land, 1,500 hectares of riverine forest and 25,000 hectares of deciduous woodland. While the EIA argues that the greenhouse gas emissions from Gilgel Gibe III would be negligible, no scientific analysis has been conducted to estimate potential reservoir emissions. This is of particular concern as the EIA argues that the best mitigation action for removal of the 20.4 million cubic meters of woody biomass in the reservoir area is to take no action, leaving it to decompose in the reservoir. The decomposition of such biomass would create a significant amount of greenhouse gas emissions from the reservoir.⁵ According to JPMorgan Chase's environmental policy, the financial cost of greenhouse gas emissions should be quantified and integrated into the project's financial analysis.

The total population of the affected region is over 210,000 people. The EIA reports that approximately 400 households (at least 2,000 individuals) will be displaced and social and commercial exchange between the communities living on both sides of the river will be interrupted. However, the EIA lists a total of only 52 affected individuals which were officially consulted. This is an inadequate consultation process and out of line with Chapter 10, Article 92 of the Ethiopian Constitution which states that people have the right to full consultation and to the expression of their views in the planning and implementation of environmental policies and projects that affect them directly. While the social impacts seem inadequately addressed as a whole, one of the most concerning is that the EIA estimates that the grazing lands of some 275 nomadic households (about 1,400 people) will be affected by the dam's reservoir. However, these households have not been considered for compensation, nor have they been consulted.

Inadequate Public Consultation and Participation. Extremely limited and inadequate public consultation has been organized during the preparation of the Gilgel Gibe III project. While construction has already begun, there was virtually no consultation of affected communities and virtually no project information available more generally to the public. During the November 2007 visit, CRBM and International Rivers encountered a very worrying situation concerning the freedom of expression of the Ethiopian civil society. Local environmental associations fear government persecution should they attempt to address issues related to the energy sector and impacts of dams. This is consistent with broader government repression of political and civil society groups. In October 2005, a resolution of the European Parliament expressed the concerns of the European Union about the anti-democratic conduct of the Ethiopian Government and its brutal repression of the opposition, asking, among others, "*to balance its assistance to the country according to progress of the democratic process*".

Position of Other Investors. Due to the clear non-compliance with its procurement standards the World Bank has stated that it is not ready to support Gilgel Gibe III, replicating its decision not to support the Gilgel Gibe II Dam for identical reasons. Contract procurement is also out of compliance with the standards of the European Investment Bank and the African Development Bank, and has been brought to the attention of both institutions. SACE, the Italian Export Credit Agency, has officially declined a request by Salini for an export credit guarantee, repeating its 2006 decision on Salini's request regarding Gilgel Gibe II. In a reply letter sent on January 10, 2008, the Italian Export Credit Agency stated that "SACE has been unable to support the [Gilgel Gibe III] project in any form".

⁴ For more information, please see <http://whc.unesco.org/en/list/17>.

⁵ A 2007 estimate identifies methane emissions from dams as being responsible for 4% of human-caused global warming. For further information about dams and climate change, see: <http://www.internationalrivers.org/en/node/383>.

We expect JPMorgan Chase to review the Gilgel Gibe III project against its policies and international standards and to fully consider the project's environmental and social impacts. Prior to consideration of financing, JPMorgan Chase should ensure due diligence of project compliance with Ethiopia's national laws, international standards and its own policies as well as consider the integrity of this project in relation to Ethiopia's development needs. Given that other important investors have already declined any possible financing, we would urge you to also consider the economic, political and reputational risks associated with this project, and therefore to refuse any loan or other financial support at this time for the Gilgel Gibe III hydropower project.

We look forward to hearing from you at your earliest convenience on how JPMorgan Chase will address these outstanding issues and we count on your attention to the project.

Best wishes,

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