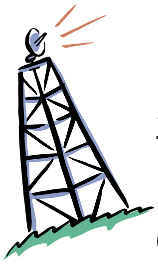

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FDC bulletin

January - February 2005

FDC joins Jubilee South call

Debt cancellation for tsunami-hit peoples, and all South countries

As leaders of the G7 countries met in Jakarta to address the impacts of the killer tsunami that hit several countries in Asia last December 26, members of the Freedom from Debt Coalition and Jubilee South stormed the doors of the World Bank office here in Manila demanding the cancellation of debts “owed” by the disaster-stricken peoples in the region.

FDC President Ana Maria R. Nemenzo leads picketers at the offices of the World Bank in Manila

Dressed in black to signify sympathy and solidarity for the peoples of affected Asian countries, the protesters presented to World Bank officials a copy of the statement calling for unconditional debt cancellation. More than 200 international organizations, as well as local non-governmental organizations had signed on the statement in support of the call.

“Now, more than ever, at their hour of greatest need, the peoples of the South must be heeded in their long-standing demand for debt cancellation. In the face of this massive destruction, northern and international creditors should not continue to hold South peoples in bondage for debts *(See page 2 for full text of statement)* ■

In the face of Debt and Disaster: Long-lasting Relief for the Peoples of the South!

We express our deepest sympathy and solidarity for the peoples of Sri Lanka, India, Indonesia, Thailand, Malaysia and many other South countries who are currently suffering from the devastation unleashed by the tsunami last December 26. We cannot overemphasize how profoundly saddened we are by the climbing death toll, numbering over 25,000 as of this writing, and the many thousand others missing or injured, the destruction of property, the loss of livelihoods and the widespread dislocation of communities.

The Philippines was also severely hit by super-typhoons in the last few weeks, leading to the death of more than 1,000 people, the destruction of over 10,000 hectares of farmlands, and rendering 53,000 families homeless and without access to clean water.

Now, more than ever, at their hour of greatest need, the peoples of the South must be heeded in their long-standing demand for debt cancellation.
In the face of this massive destruction, northern and international creditors should not continue to hold South peoples in bondage for debts that have in large part, only contributed to their impoverishment and deprivation.

If there is any measure of sincerity in the outpouring of compassion from North governments for the peoples of the South, let this be through
concrete action – In addition to emergency relief operations and rehabilitation, what we need immediately is:

UNCONDITIONAL DEBT CANCELLATION NOW!

Southern governments should not continue to prioritize debt service, and
squander much needed public funds:

STOP PAYING ONEROUS and ILLEGITIMATE DEBTS! Prioritize relief and rehabilitation, basic social services, clean and safe water, and other
human development programs!

Jubilee South
Jubilee South – APMDD (Asia/Pacific Movement for Debt and Development)
Freedom from Debt Coalition of the Philippines

More than 500 people's organizations, movements, institutions, and individuals have since signed-on this statement. For the list of signatories, please visit *www.jubileesouth.org.*

(Left) Ana Maria Nemenzo hands a copy of the statement to Bank official Leonora A. Gonzales; (right) FDC members raise banners calling for unconditional debt cancellation; (below) an offering of candles and flowers to the thousands dead, injured, homeless and missing from the massive December 26 tidal wave.

The G7 Debt Relief:
An agreement on well-chosen phrases

Finance ministers from the world's seven richest nations called the G7, which includes the United States, Britain, Canada, Italy, France, Germany and Japan, met in a summit in February of this year to discuss the multilateral debts of the 42 highly indebted poor countries (HIPC), estimated at $80 billion. At the end of the summit, however, there is little to show the world save a few carefully worded empty declarations claiming agreement "in principle" to write off "up to 100 percent" of the debts of the world's 27

poorest countries (mostly in Africa), which are as yet to be negotiated on a "case by case" basis.

No Plan for Action

Although the delegates each supported a general set of mechanisms by which the proposed debt relief would be implemented, they categorically rejected each other's proposal and could not come up with any form of compromise. The fact that each side steadfastly stuck with its own ideas only served to demonstrate that none had the interests of their client governments in mind.

vast gold reserves – perhaps selling some – to cover the cost of canceling the fund's loans to poor countries. He also proposed doubling aid to about $100 billion a year by creating an International Financing Facility that would essentially require rich nations to make long-term aid commitments.

US officials, though supporting the idea of debt relief and increased aid, rejected the mechanisms proposed by Brown and other European leaders . The Bush administration preferred an approach in which the World Bank would essentially convert future aid to poor countries to grants rather than loans. The US said it is willing to consider using IMF gold reserves in some way to help fund debt relief, but is "not convinced of the need at this time," said John Taylor, the Treasury undersecretary for international affairs.

No Intentions of Eradicating the Debt

The phrase "Up to 100%" could very well mean nothing at all, since any percentage of reduction falls necessarily between zero and 100%. Significantly, those at the

forefront of the G7 Summit are the very same individuals to whom over 17 million signatures were presented for the abolition of the poor countries' debts, six years ago. In June 1999, the G7 held a summit in Cologne to address the HIPC initiative launched in 1996. They claimed that they understood what those millions of signatories wanted, and announced that they were cancelling 90% of the bilateral and multilateral debts of the countries concerned, worth a total of $100 billion.

Six years later, the overall debt of the 42 HIPC has not been reduced, quite the opposite. According to the Organization for Economic Co-operation and Development, between 1999 and the end of 2002, the HIPC's multilateral debt increased by $10 billion and their bilateral debt to industrialised countries by $2 billion. According to the United Nations Conference for Trade and Development, the countries concerned are to repay $2.6 billion in 2005, more than the $2.4 billion of 2003. Since 1999 they have not kept their promises. Why should anyone believe they will now?

Keeping the Poor Countries under Control

The G7 finance ministers said they would consider debt relief on a"case by case" basis and underlined that governments must show themselves accountable for how they would use money freed up by the relief for poverty reduction. This qualification forebodes the inevitable: imposition of conditionalities on the debtor countries, which would effectively reduce the effects of whatever reduction is finally conceded. The G7 leaders apparently would like to keep the 42 HIPC and the other developing countries mired in debt so as to maintain economic and political leverage over the same.

In reality, the HIPC initiative is about tightening the creditors' stranglehold on these countries' economies through the scheme of structural adjustment. It is about opening up the HIPC economies to exports and the interests of multinational corporations; about privatizing water, telecommunications and electricity, the few existing publicly-owned industries; and about making people pay for health and education. It is the same scheme of subjugation to the financial markets that operate today. ■

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The People's Urgent Agenda in the Face of Poverty and Crisis

In the face of the fiscal crisis besetting the nation, there is a need for expedient action. There is an urgent necessity to find the correct solutions, to rouse the government from its complacency, challenge its convenient quick fixes and present concrete alternatives to long-standing issues of social and economic injustice. "We keep on opposing government policies and decisions without thinking what to put in their place. Should we leave it to the government to decide on these while we heckle from the sidelines? We have to think of feasible alternatives for until there is a clear alternative from the mass movement, I don't think we will move forward. We are allowing the government or the ruling class to have the initiative because we have not tried to have an initiative of our own?" Dr. Francisco Nemenzo, University of the Philippines (UP) president challenged the audience as he addressed the People's Assembly last February 17, 2005 at Balay Kalinaw, UP Diliman, Quezon City.

The Assembly, which had been initiated by the Freedom from Debt Coalition brought together representatives of different sectors of society including the urban poor, women, youth, church, labor, as well as professionals and delegates from various non-government organizations.

The People's Assembly was held to discuss a ***People's Urgent Agenda in the Face of Crisis and Poverty***, with the objective of forging a concrete people's platform on urgent issues currently plaguing the nation: ballooning debts and government spending; the Value Added Tax (VAT) and other tax proposals; soaring costs of power and water services; continuous and uncontrollable increases in prices of oil and other basic commodities; low wages; and unfair trade policies.

The Debt Crisis

At over P5 trillion, the public sector debt is already more than 100 percent of the Gross Domestic Product. Interest payments for the National Government Debt comprise more than 30 percent of the 2005 budget, with total debt payments (interest and principal) greatly exceeding government revenues. Debt service has been progressively crowding out allocations for social services and social justice programs in the national budget.

The Assembly called on the government to take immediate steps towards a just and decisive solution to the debt crisis, including: the conduct of a comprehensive audit of all public debts and contingent liabilities as a basis for major changes in government policies regarding debt management and, thus, the immediate passage in the Senate of the Joint Resolution for the Debt Audit that has already been adopted by the House of Representatives; the repeal the Automatic Appropriations Law on Debt Service; a stop to the payment of illegitimate and onerous debts; active solidarity with the international community in pressing the G7 governments and international financial institutions for the immediate cancellation of multilateral and bilateral debts beginning with the most impoverished countries and

countries in crisis like the Philippines; the cancellation of onerous and debt-creating contracts such as those with Independent Power Producers (IPPs); the establishment of a debt payments ceiling ensuring that the allocation for debt payments does not surpass the allocation for education; and the increase in allocations for education, health, housing, agrarian reform and related support services, environmental protection, and water services.

The VAT and Regressive Taxation

Instead of decisively addressing the debt problem, grossly inefficient tax collection, and rampant corruption, the government is taking the path that would hurt its poverty-stricken population even further -- the imposition of new taxes and increasing indirect, regressive taxes such as the VAT. As it is, the larger portion of collected revenues already comes from indirect taxes that do not discriminate between the rich and the poor, and place a bigger burden on the poor. This is in violation of the constitution, Prof. Leonor Magtolis-Briones former National Treasurer, pointed out at the Assembly: "The rule of taxation shall be uniform and equitable. The Congress shall evolve a progressive system of taxation." This expressly refers to a system of taxation that is based on direct taxes and not on indirect taxes, Briones explained.

Yet even current laws on direct taxes are flawed. While the existing tax system succeeds in capturing the taxes of fixed-income workers (most of whom earn less than the government's own estimate of the basic cost of living), it is riddled with loopholes that allow tax avoidance by corporations and rich individuals.

The Assembly demanded that the proposal to increase and expand the VAT, as well as other proposals for regressive taxation, be scrapped, and instead called for

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major reforms towards a more progressive tax system that would increase tax relief for the poor.

Soaring Power and Water Rates

Adequate and affordable water and power services are essential elements for a decent quality of human life. Yet the privatization of these two basic services are increasingly constraining people's access, especially poor households and communities.

Consumers suffer high power rates due to expensive and grossly burdensome contracts that the government forged with IPPs in the 1990s. Government admits that power rates have to be hiked to entice private sector investment in the power industry. At present, power rates have already reached P7/kWh from an average of only about P4/kWh, prior to the passage of the Electric Power Industry Reform Act (EPIRA) in 2001.

Similarly, the government shamelessly bends over backwards to accomodate the demands of private corporations who have not even measured up to their expansion obligations and yet are charging water users for their self-inflicted business losses.. Current price tags on water consumption in Metro Manila read 500 to 670 percent higher than they did in 1997.

The Assembly called on the government to: put a stop to unjustified power and water rates increases and address the real reasons for higher costs of these services; review and overhaul the laws and policies such as the EPIRA and the Water Crisis Act of 1995; cancel onerous contracts with the private sector such as the IPPs; overhaul water and power rates to ensure effective socialized pricing; and increase public investments in water and power services.

Escalating Prices of Basic Commodities

Along with ever-rising power and water rates, oil price hikes occur almost on a monthly basis. These increases have, in turn, pushed up the prices of transportation fees and basic goods. Government has failed to cushion the people from the impact of oil price hikes under its policy of oil industry deregulation. From an average of P7 per liter in 1997 (pre-deregulation policy), the price of diesel increased to P20 per liter. Consequently, the well-known *galunggong* now costs P100/kilo, a 150% increase from its 1997 price of P40/kilo.

The Assembly challenged the government to: arrest the skyrocketing costs of basic commodities; immediately impose price ceilings on the costs of oil products and other basic commodities; and review and rescind policies and contracts covering privatization of public utilities and delivery of public services as well as the policy of oil industry deregulation.

Stagnant Wages

While government is bent on imposing new tax measures, it has been miserly in granting wage increases. The government explains that wage increases would only effect an increase in labor costs of production, thereby triggering even higher costs of commodities and, worse, may affect continued operation of business and inhibit the entry of new investments. Yet inflation today stands at 8.4% from just 4.1% in January 2004; as it continues to rise, so does the cost of living.

The Assembly called on the government to immediately sit down with labor to address its demands for wage recovery. Moreover, instead of imposing new taxes, government must work out with labor a package of relief composed of tax cuts along with innovative means providing them access to goods at price discounts – non-wage measures that would increase the take home pay of the toiling Filipino.

Indiscriminate Trade Liberalization

The government policy of trade liberalization, especially the lifting of tariffs on imports has been a major cause of loss in government revenues. Even as a new member of the World Trade Organization (WTO) in 1995, the Philippines' average nominal tariff rate was already at 19.72%, lower than most of the bound rates committed under the WTO. The impact of the trade liberalization policy thus far has been most crippling for agriculture. In rice, corn, poultry, and vegetables, the flood of foreign goods through WTO arrangements has resulted in displacements of significant local production and large numbers of producers. On the other hand Philippine exports have not been spared from restrictions imposed by trading partners like the United States, Australia and the European Union.

The Assembly demanded for: a stop to indiscriminate trade liberalization; removal of agriculture from GATT-WTO negotiations; development of local production and food self-sufficiency; assertion of Philippine sovereign right; and installation of protective trade measures to prevent undermining of its domestic economy by import dumping.

Heed the People

The government is using the crisis as justification to impose regressive measures upon the citizenry. It is telling the people that if these measures, such as the VAT, are not implemented at once, the country would sink deeper into crisis. It is even blaming the delay in the implementation of these measures for country's credit downgrading by ratings agencies.

There is no lack of alternatives in finding solutions to the crisis if only the government had the political will to uphold the nation's sovereignty and the resolve to put the interest of its people above all else. ■

THE DEBT AUDIT:

Laying the foundations for rational debt management

The Freedom from Debt Coalition's (FDC) campaign for a Congressional Debt Audit and a parallel Citizens' Debt Audit of all Public Sector debts has covered significant mileage since last year. A major development was the House of Representatives' adoption of the Debt Audit concept, as embodied in the Joint Resolution for the creation of a Congressional Debt Commission that would be tasked to conduct the audit of public debts. The Resolution was unanimously passed by the House of Representatives in September 2004.

The Senate bogs down

The Debt Audit Resolution needs a parallel version in the Senate for ultimate implementation. Things began to look hopeful when Sen. Rodolfo Biazon filed the Senate version of the Joint Resolution in September 2004. The Resolution, however, eventually got bogged down in the Senate Committee on Finance as its Chairman, Sen. Manuel Villar Jr., appeared wary of taking up the Resolution in his committee.

In an unexpected coup, Sen. Villar filed his own Bill for the creation of a Council for Debt Relief. The Bill was clearly conceived to supercede the Debt Audit Resolution as it proposes to undertake the same general objective of a review of loan transactions entered into by the government. Yet even as the Debt Relief Bill purports to address debt relief, restructuring, cancellation and even repudiation, it suffers from major flaws that would inevitably counter the attainment of any of said options.

While the Debt Audit Resolution proposes to cover all Public Sector debts, the Debt Relief Bill restricts the coverage to bilateral and multilateral loans. This restriction contravenes the fact that many of the most odious debts of the country are owed to private commercial banks. With the Debt Relief Bill's provisions, the debts of the Bataan Nuclear Power Plant, for one, the most patently odious debt of the Philippines, would go scot-free..

The Debt Relief Bill stipulates the composition of the proposed Council to be selected from the finance community, social sciences academe (presumably economics?), banking sector, corporate law and the government. Yet, all these sectors have historically proven to be the most resistant to any form of debt nonpayment, much less debt repudiation. Sen. Villar, in his explanatory note, speaks highly of street parliamentarians as regards the debt issue, but surprisingly fails to include that sector in the composition of his proposed Council.

While the Debt Audit Resolution proposes a Congressional Commission, the Debt Relief Bill places control of the proposed Council in the hands of the Executive, specifically the National Economic Development Authority. Consider, however, that the Executive is the very same branch of government that applies for, negotiates, signs and implements loan agreements. The conflict of interest is glaring. The Executive would not even consider debt alleviation as a viable option amidst the ongoing fiscal crisis.

A Reasonable Course of Action

FDC believes that any effort towards rational debt management must start with an investigation of the country's debt situation. Before any form of debt relief can be pursued, the circumstances

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Stiff opposition awaits Mirant

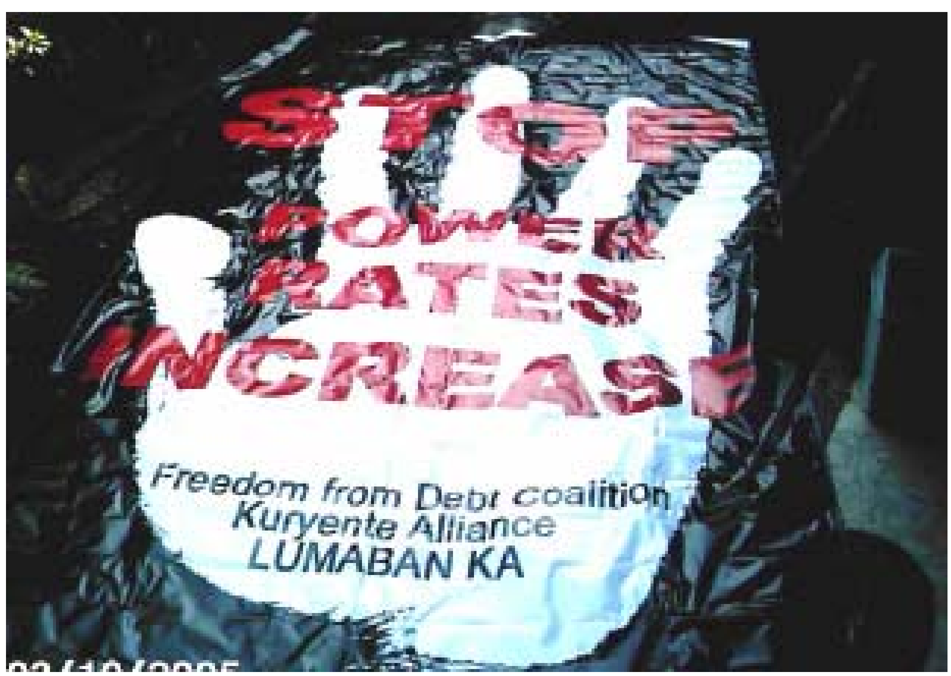
A new challenge confronts the Responsible Ilonggos for Sustainable Energy (RISE), which stood at the forefront of opposing a Korean coal plant from setting up shop in Iloilo. This time it is the coal plant project of Mirant, the American independent power producer that arrogantly put up a power plant in the town of Aklan, Panay Island without an Environmental Compliance Certificate (ECC).

Unlike the *kababanwas* among the Catholic bishops in the region who have joined RISE against Mirant, Iloilo resident and Senate President Frankin Drilon is actively cheering for Mirant, citing the opinion of "experts". He said Ilonggos should instead be thankful and give their trust to Mirant.

"We are challenging Sen. Drilon to name his 'experts' and let them face us," said FDC-Iloilo and RISE. "Lest the Senator forget, last year we intervened in the proposed coal plant in Banate and we faced the experts of KEPCO [Korean Electric Power Co.]." RISE succeeded in stopping KEPCO from setting up its coal plant.

Ian Seruelo, FDC-Iloilo Secretary General advised Sen. Drilon to study the documented ill effects of Mirants' coal plants in Quezon and Pagbilao. "The country adhered to the forecast and plans of the 'experts' in the Department of Energy and where are we now? We have very big surplus energy, particularly in Luzon where there is more than 4,000 MW in excess capacity.... Because of these 'experts', power rates in the country are among the highest in Asia. Government ends up paying for the debts and losses of Napocor (National Power Corporation) caused by the guarantees to these IPPs including Mirant. Just recently more than P200 million of Napocor debts were passed on to the government," continued Seruelo.

In related developments, there may be a way to slowly regain public control over the power industry by realizing genuine consumer ownership in electric cooperatives after much of the debts owed by these cooperatives to the National Electrification Administration (NEA) have already been condoned. FDC- Western Mindanao reported that members of a local electric cooperative in its area are actively campaigning for registration of electric cooperatives with the Securities and Exchange Commission. FDC is coordinating with other organizations on how to concretely involve rural communities in such modes of local intervention in the power industry. ■



The Debt Audit...from previous page

behind each specific loan must first be established. This is FDC's reason for pushing that all Public Sector debts be audited. Any solution that would seek to relieve the country of its debt burden must proceed from a just and well-founded basis; a debt audit process conducted by both the legislature and the people provides this opportunity. ■

In the guise of corporate rehabilitation

A new bailout scheme in the offing

Where the government derives the reason to bail out the erring company from its self-created financial ruin just to cover up the failure of its water privatization policy remains a mystery. Saving Maynilad has long lost its purpose. The company's sheer negligence of its duty to provide decent water and sanitation services to the public and its shameless avoidance of paying concession fees provide glaring proof that profit-driven management of the water distribution system is irreconcilable with public interest.

The Rehabilitation Plan: The New Bailout Scheme

The key features of the Rehabilitation Plan for Maynilad are (1) tariff increases and projected reduction in water losses to increase Maynilad's revenue and (2) reduction in capital expenditure commitments and other service obligations. Within these provisions, the government has awarded Maynilad an extra income of P3 billion from a P10.27-per-cubic-meter increase in its base rate, which makes its rates 500 percent higher than its 1997 tariff of P4.96/m^3. Yet the scheme even allows the inefficient and mismanaged water company to delay attainment of its service targets by at least four more years by cutting down on expansion and maintenance projects, and prioritizing service to areas that are profitable and where the company has high collection rating. In effect, the government through the Metropolitan Waterworks and Sewerage System (MWSS) allows the Lopez-owned company to profit more without any significant improvement in its performance. This simply means further rates increase and further disruption of water service for the millions of already under-serviced and un-serviced urban poor residents and consumers of Metro Manila.

The government will sacrifice (as it has always done) consumers' and taxpayers' money and health especially those of urban poor residents, just so it can bail out a bankrupt company all in the name of preserving a skewed and immoral policy of giving private sector control over people's lives.

Privatization at All Costs?

The Rehabilitation Plan for Maynilad allows the Lopezes to get away, to be set free from taking responsibility over the mess it did with the West Zone concession. Maynilad as of this moment is bankrupt and insolvent. Its liabilities outweigh its assets. When the rehabilitation pushes through, Maynilad intends to pay its outstanding and future concession fees by installment until 2008. Government through MWSS will shoulder the new loans Maynilad incurred since it started operations, including the new loans it incurred due to Maynilad's unilateral decision to stop payment of concession since 2001 as well as payment of old MWSS loans which was supposed to be part of the responsibilities of the water concessionaire when MWSS was privatized in 1997.

Government's latest admission that its main goal is to preserve the privatization policy only highlights its disregard for people's interests.

FDC strongly reiterates its position: *NO* to rehabilitation and *NO* to the bailout of a bankrupt and mismanaged water company. MWSS should terminate the contract with Maynilad; draw on Maynilad's bond to pay for old MWSS loans and operations expenditures; and genuinely takeover management of the West Zone concession area. ■