Burma's Nuclear Ambitions
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Written Statement
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Good afternoon. My name is Paul Donowitz and I am the Campaigns Director for EarthRights International, an NGO with offices here in DC and in Thailand. EarthRights has been documenting the human rights and environmental impacts of large-scale natural resource projects in Burma since the mid 1990s, with a focus on the impacts of natural gas projects. I will be talking today primarily about the role of natural gas in Burma's development (or lack thereof) and the connection between natural gas sales and Burma's nuclear program. Before I delve into some of the economic figures associated with this sector, it's important to note some general characteristics of economic and other data coming out of Burma.

Collecting reliable data in notoriously secretive Burma is a serious challenge and makes difficult an accurate understanding of both macro-economic indicators as well as sector specific economic performance. The secrecy and paranoia around data collection from the ruling military junta covers not only economic data, but other key development areas, including information on health and education. In Burma, it is actually illegal to collect data without the explicit approval of the State Peace and Development Council (SPDC), and in most cases, the data must get approval from the various ministries or other government agencies before it is released, ensuring that independent, reliable data is extremely hard to come by.

A more accurate picture of Burma's economy can be found by examining proxy measures on growth, including things like energy usage and lending/financing. Noted Burma economist Sean Turnell, from Macquarie University in Sydney, Australia recently released a paper *"Dissecting the Data: Burma's Macroeconomy at the Cusp of the 2010 'Elections'"* available outside, that delves into these proxy measures and tells the story of a country, which, at one point in time was the bread-basket of Asia, that has been reduced, by corruption, authoritarian government, and complete economic mismanagement, into one of the poorest countries in the region and world. In fact, in 2008, the IMF ranked Burma behind Afghanistan, Nepal, Loas, Cambodia and every other country in the Asia-pacific region in per capita GDP at little more than US $200 a year.

Looking at these proxy indicators, Mr. Turnell demonstrates that the SPDC's claims of more than double digit growth over the last five years are nothing more than a fantasy. More likely, growth has been around 2-3% annually, with the primary driver being an increase in net exports, the majority of which are in the form of natural gas sales to Thailand over the Yadana and Yetagun pipelines. These parallel overland lines transport natural gas from the Andaman Sea to Thailand where the gas is converted to electricity where it provides about 40% of Thailand's power. Without these sales which began a decade ago, per capita GDP has actually been falling over the last several years.

How does the SPDC manage the economy and where does it spend the people's resources? A vast proportion of state spending in Burma goes to the military (estimates from around mid 20% of government expenditure to up to 40% of gov't expenditures). Military spending is consistently and greatly in excess of that health and education spending *combined* - a phenomenon unique to Burma amongst Southeast Asia nations. As I will discuss shortly, the vast majority of income from natural gas sales never enters Burma, necessitating that the SPDC resorts to borrowing/printing money with resultant consistent double digit inflation over the last decade. With little credit for agriculture (formerly the major export of the country), and inefficient and corrupt state owned enterprises, it is little wonder that Burma's economy is a mess.

Now, the story of Burma's economic mismanagement and the role of economic sanctions goes back further than a few years. To understand Burma's current economic priorities and performance, we need to go back to the mid to late 1990s, before the Yadana and Yetagun projects came online. In late 1997 and early 1998, the Burmese military regime was in a financial crisis. International efforts to isolate the junta economically were having an effect, as well as the SPDC's own mismanagement of the economy. The junta was short of cash, and its foreign exchange reserves shrank to less than the foreign-currency deposits they are supposed to cover. In the summer of 1997 the Burmese kyat lost nearly half its value against the dollar in just a few months. The Economist Magazine estimated that in March 1998 the regime's foreign exchange reserves had fallen below $100 million. Clearly, the military regime's ability to cover its own expenses was in jeopardy. Then, commercial natural gas payments began in 1998 and Burma's foreign exchange reserves and cash crisis abated. Today, the SPDC has over $5 billion in foreign exchange reserves.

Now, looking closely at Burma's export sector, natural gas exports make up to 45 percent of total exports, with the Yadana and Yetagun project accounting for the lion's share of these earnings. (Other key export sectors include pulses and beans, timber, jade and mining, and fisheries.) Seventy percent of Burma's foreign exchange revenues were from natural gas sales in 2007-08. Had these revenues entered the state budget, they would have accounted for 57% of the total budget. Instead, they appear to never enter Burma, and instead, they sit in dollar denominated accounts in banks in

Singapore and Dubai and possibly elsewhere, where they inflate Burma's foreign exchange reserves, and can be spent on items like Burma's clandestine nuclear program, the new capital city of Naypyidaw, new MiG-29 fighter planes from Russia purchased in December 2009 for approximately $US570 million, the attempted purchase of nuclear reactors from Russia – as well as earlier purchases of other sophisticated offensive weaponry, other military hardware, and a series of expensive tunnels throughout the country to protect and enhance Burma's generals ability to control the country. Within the next five years, natural gas exports are expected to double as the cross-country oil and gas pipelines discussed below comes on-line.

In 2009, my colleagues and I at EarthRights International (ERI) calculated that the Yadana natural gas pipeline -- operated by the French oil giant Total, with the American company Chevron, and the Thai company PTTEP -- had generated nearly $8 billion dollars in gas sales since payments commenced just a decade ago. ERI estimated that from 2000-2008, almost $5 billion dollars of that revenue went directly to Burma's ruling junta, a claim the companies have never denied. ERI will be releasing a report on July 5 with update revenue figures based on newly discovered documents made public by Unocal in the federal case against the company over complicity in human rights abuses committed by the Burma Army providing security for the Yadana project. These updated figures will include total project revenues on an annual and aggregated basis, for the SPDC as well as all consortium partners.

Last year, ERI through confidential sources, learned that hundreds of millions of this money is corrupted away into the bank accounts of individuals closely associated with the ruling military regime not found on the various foreign government sanctions and watch lists. Located at some of Singapore's most well-known banking institutions, including OCBC and

DBS Group, these illicit accounts (which the banks have denied exist) are another reminder of the undemocratic effects that natural resource wealth is having in Burma. As an aside, Burma is ranked 178 out of 180 countries on Transparency International's Corruption Perception Index, ahead of only Afghanistan and Somalia.

Now an even larger source of revenue is set to begin flowing in the coming years as construction has commenced on dual pipelines — one transporting offshore natural gas from the Bay of Bengal to China (the Shwe Project), and the other an overland oil transport pipeline — to Western China. These pipelines are important for China's energy security both geopolitically and domestically. From an international energy security perspective, the oil transport pipeline will carry oil from the middle-east, Africa, and likely South America to Western China bypassing the Straits of Malacca, where up to 80% of China's oil imports currently pass through. Recently, a president of a Chinese state-owned energy company noted China's concerns that the Strait is "an area of American influence", and this oil pipeline diversifies access to imported oil. The natural gas pipeline will end in Kunming, in Yunnan China, and provide a key energy source for China's growing western cities and industry. The buyer for both the gas and the oil is the Chinese National Petroleum Corporation (CNPC), who is also the operator of the pipeline, with Korea's Daewoo International the operator of the offshore natural gas project in a consortium with Korean and Indian oil companies. These companies are also minority partners in the pipelines with CNPC. Scheduled to begin production in 2013, the natural gas project is estimated to generate about US $29 billion over the 30 year life of the project, while the oil transport pipeline is estimated to generate about 150 million annually in transit fees during operation.

Little to none of this gas or oil is for Burma's domestic consumption, where chronic electricity shortages and fuel hikes attest to the backwards development paradigm the SPDC is following, and triggered the massive monk-led protests in 2008 that were brutally suppressed by the SPDC.

So, while the world wonders about how seriously to take the recent reports of Burma's nuclear program, there is little wonder how the SPDC is financing their clandestine nuclear ambitions. With an economy reliant on natural gas sales to generate billions of dollars, the answer involves the military regime's partnerships with multinational companies, including some of the world's largest and best known oil firms from the US, France, Japan, China, India, Thailand and elsewhere.

In was most telling to note that in the DVB story, it cites a defected senior junta member stating that "when [the regime] got that [gas] money, they started the nuclear project."

Aside from the corrupting and undemocratic effects of natural gas revenue, the Yadana and Yetagun projects and other similar extractive projects in Burma have led directly to widespread and systematic use of forced labor, rape, torture, killings and other abuses against local people in direct connection to the these projects. We are now seeing similar effects as the Shwe project construction commences in Arakan State, and we expect an increase in abuses in central Burma and Shan state as construction extends towards China. The companies continue to resist demands from civil society inside and outside of Burma to postpone the project until conditions on the ground in Burma can guarantee negative impacts can be mitigated or eliminated.

There are steps that the international community and international companies operating in Burma can take to minimize the negative impacts of their projects. From a human rights and environmental perspective, companies already in Burma can, for example, work to facilitate complaints

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of forced labor to the ILO, make clear to their military partners that abuses associated with their projects will not be tolerated, and take responsibility for communities impacted by their projects. (We've written whole reports on this issue, some of which are available outside). For companies considering investment in the extractive industry in Burma, they should postpone new projects at this time.

When it comes to the massive revenues these projects generate, the companies participating in the projects can likewise take important steps to lessen the likelihood that the revenues fuel corruption and illicit activities. Earlier this year, ERI launched an international campaign urging the Yadana companies (Total, Chevron, and PTTEP) to practice complete revenue transparency in Burma and to publish all the data surrounding their last 18 years of payments to the Burmese regime. We have copies of the statement calling on the companies to practice revenue transparency, which is backed by over 160 world leaders, NGOs, unions, scholars, and investment firms, including global leaders like former Irish President Mary Robinson, and the former Prime Minister of Norway. This statement is available on the table outside.

About two weeks ago, Total and Chevron released statements effectively saying they had no plans to practice revenue transparency in Burma and no plans to cooperate with the initiative. Had they cooperated, they would have been the first ever companies to practice revenue transparency in the notoriously repressive country. The companies cited different reasons for their secrecy (Chevron claimed they're contractually restricted from publishing their payments, while simply Total implied that since the regime didn't want them to practice transparency, they could not). As you can see by picking up a copy the primary contract, the PSC from the Yadana project on the table outside, these claims are simply untenable. These contracts became public in the *Doe v. Unocal* trial when submitted into evidence by Unocal

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and do not prohibit the companies from disclosing their payments to the SPDC. Whatever the excuse, it would appear both Chevron and Total would simply prefer to hide their payments to the world's newest nuclear threat.

The international community and concerned national governments need to take a much closer look at the billion dollar revenues natural gas projects generate in Burma. The overall percent of total revenue from one industry, the unique role of just two projects for the next few years (the Yetagun and Yadana projects are operated by international corporations susceptible to domestic foreign policies towards Burma), and the total state control in this area, mean new policies targeting the gas revenues could have significant impact where previous sanctions regimes have failed because the industry was either exempted or grandfathered in.

In addition to the destructive local and national impacts of extractive projects, it can be reasonably concluded that foreign direct investment overall in Burma is presently doing little in creating the foundations for future growth while fueling conflict, corruption, human rights abuses, and poverty. As the largest source of revenue for the SPDC, revenue critical to the military regime's grip on power and ability to finance dubious mega-projects (like Burma's possible nuclear program), the international community is right to take a hard look at natural gas sales and how these could be tied to or used to incentivize democratic improvements in the country.

As an example of the SPDC's priorities, one only needs to look at the aftermath of Cyclone Nargis which devastated the Irrawaddy Delta in 2008, killing an estimated 140,000 mostly Karen people from Burma. Instead of spending their billions of foreign exchange reserves on assisting their own people, in 2008/09 Burma's regime spent just $US85 million on post-Nargis reconstruction – less than half of that provided by international donors in the

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same year, and about one seventh of the funds spent by the regime on its new fighter planes, and a mere two weeks of the foreign exchange accruing from Burma's gas exports.

Clearly, natural gas sales are hurting the people of Burma and assisting the ruling military junta's grip on power. For those concerned for Burma, or more generally for regional or global security endangered by recent reports of a clandestine nuclear weapons program, the role of natural gas revenue should be front and center of any discussion of moving the rulers of Burma in a positive direction.

Thank you

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