

**European Investment Bank (EIB) Lending in Mexico –
In whose interest?**

**An analysis of EIB lending activities in Mexico
with regard to European Union Cooperation Priorities**

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Introduction

This report, entitled “The European Investment Bank (EIB) Lending in Mexico – In whose interest?_An analysis of EIB lending activities in Mexico with regard to European Union Cooperation Priorities” is the result of research undertaken in Mexico in February and March 2005 at the request of the Italian organization, Campagna per la Riforma della Banca Mondiale (CRBM), to the Mexican organization, Equipo Pueblo, given its experience in monitoring the activities of the Multilateral Development Bank in Mexico.

The main findings and conclusions of the Mexican case study were incorporated into the report “*The development impact of European Investment Bank (EIB) lending operations in the Cotonou and ALA Framework*”¹ that the European Parliament Directorate General External Policies had requested from CRBM with the objective of providing input to the Parliament Development Commission for a report regarding the impact of European Community lending activities in developing countries. This report presents the case study in its totality together with additional information that was reviewed and analyzed during the research process as well as all results and conclusions.

The document is divided into two parts. Part One begins with a review of the European Investment Bank (EIB) mandate for Asia and Latin American (ALA) countries, and in particular, for Mexico (Section 1), followed by a general overview of the Bank’s operations in the country (Section III), and an analysis of the development impacts of the financed projects (Section IV). The European Union external policy, and in particular its cooperation objectives and priorities in Mexico (presented in Section II), constitute the reference framework for the analysis². In Part Two, a more detailed analysis of two Mexican projects financed by the EIB is presented; the “Mexi-Gas” project (Section I) and the “Volkswagen Mexico” project (Section II). Finally, the conclusions of the research are presented with recommendations aimed at ensuring that future EIB activities in Mexico are consistent with European Union cooperation policy and priorities and orientated towards their fulfilment.

¹ The Spanish translation would be: “*El impacto sobre el desarrollo de las actividades del Banco Europeo de Inversiones (BEI) en el marco de Cotonou y ALA*”. This report was published by the European Parliament under the following reference: European Parliament – Directorate General External Policies – Policy Department. External Study on “*The development Impact of European Investment Bank (BEI) Lending operations in the Cotonou and ALA Framework*” (Project NO EP/ESPOL/2004/09/06), by Jaroslava Calajacomo, Campagna per la Riforma della Banca Mondiale / Italy, 1 March 2005. The Mexican case study, written by the consultant Domitille Delaplace, DECA Equipo Pueblo, A.C, is included in this report on pages 62 to 90.

² As the purpose of the research is to measure the coherence between EIB lending activities in Mexico and the European Union priorities in matters of aid and development cooperation, the cooperation strategy defined by the European Union constitutes the reference framework of the research and is not subject to analysis.

Methodology

The information collected and analyzed in the framework of this research comes from various sources. The consultant interviewed and maintained contact with the promoters of the Mexican projects, the Latin American Division of the EIB, the European Union Delegation in Mexico as well as with Mexican civil society organizations working in areas related to the projects³. In addition, questionnaires were administered to the EIB⁴ and promoters of the “Mexi-Gas”⁵ project and a survey was done of users of the natural gas network in the Valley of Cuautitlán-Texcoco (Mexi-Gas Project), State of Mexico⁶. EIB, European Commission and European Council publications were additional sources of information as were existing Mexican laws, books and newspaper reports as well as other documents consulted on the internet⁷

³ Appendix 2 provides the list of interviews, questionnaires and surveys done by the consultant.

⁴ See Appendix 3 “EIB Questionnaire”.

⁵ See Appendix 4 “MexiGas Questionnaire”.

⁶ See Appendix 5 “Natural Gas Network Service Survey”

⁷ A complete list of consulted documents appears in the bibliography.

Part One:

**General Analysis
of European Investment Bank (EIB) lending activities in Mexico**

Before presenting a general overview of EIB activities in Mexico and analyzing their impacts and coherence with European Union cooperation priorities, a review of the legal reference in which the EIB operates in the Asia and Latin American region and in particular, in Mexico, is presented.

I. Reference framework for EIB activities in Mexico

1. EIB Mandate for Asia and Latin American region: the “ALA Mandate”

The European Investment Bank (EIB), the multilateral financial institution comprising of the Member States of the European Union, was founded in 1958 by the Treaty of Rome. Traditionally, the Bank concentrated its financial operations in the countries that make up the European Union, with the objective to “contribute towards the integration, balanced development and economic and social cohesion of the member countries”⁸. Nevertheless, in the years that followed, its mandate was extended to facilitate its operation in other countries. In 1993 the European Union Council established its first Mandate for the Asia and Latin America region (ALA I Mandate / 1993 – 1995) that authorized the EIB to finance projects in that region⁹. This mandate has been renewed on three occasions: in 1996 (ALA interim Mandate)¹⁰, in 1997 (ALA II Mandate / 1997 – 2000)¹¹ and in 1999 (ALA III Mandate / 2000 – 2006)¹². Between 1993 and 2006, EIB loans for the ALA region reached a total of 4.405 million euros.

In the ALA III Mandate, currently in force, the Council authorized the EIB to grant loans to Asian and Latin American countries for a total of 2.480 million euros, over a period of 7 years, beginning in February 2000¹³. In addition, it was established that 65% of the total authorized credits would enjoy a guarantee against political and trade risks (expropriation, war, civil disturbances, etc.) by the European Community general budget on the condition

⁸ European Investment Bank webpage: www.eib.org

⁹ European Council. Council Decision 93/115/EEC of 15 February 1993 granting a Community guarantee to the European Investment Bank against losses under loans for projects of mutual interest in certain third countries, Official Journal L 45, 23.2.1993, p. 27.

¹⁰ European Council. Council Decision 96/723/EC of 12 December 1996 granting a Community guarantee to the European Investment Bank against losses under loans for projects of mutual interest in Latin American and Asian countries with which the Community has concluded cooperation agreements, Official Journal L 329, 19.12.1996, p. 45.

¹¹ European Council. Council Decision 97/256/EC of 14 April 1997 granting a Community guarantee to the European Investment Bank against losses under loans for projects outside the Community (central and east European countries, Mediterranean countries, Latin American and Asian countries and South Africa), Official Journal L 102, 19.4.1997, p. 33.

¹² European Council. Council Decision 2000/24/EC of 22 December 1999 granting a Community guarantee to the European Investment Bank against losses under loans for projects outside the Community (Central and Eastern Europe, Mediterranean countries, Latin America and Asia and the Republic of South Africa), Official Journal L 9, 13.1.2000, p. 24.

¹³ European Council. Council Decision 2000/24/EC of 22 December 1999, *Op.cit.*, article 1, insert 1.

that such loans served “to support the Community relevant external policy objectives”¹⁴. Furthermore, the Council decision established that the “projects should be of interest to both the Community and the countries considered”¹⁵. However, neither was the term, *mutual interest*, clearly defined, nor were the criteria to be used to measure the fulfilment of either this objective or the objective to support the European Community external policy. The Council has not specified a mandate for the ALA region that makes explicit the promotion of development, as it did for the countries in the African, Caribbean and Pacific (ACP) region where the EIB lending operations fall within a development framework established by the Cotonou Convention between Europe and those countries.

2. EIB lending activities framework in Mexico: an ambiguous mandate

On 8 December 1997, the United States of Mexico and the European Community signed the “Agreement on Economic Partnership, Political co-ordination and Cooperation”¹⁶ (Global Agreement) in Brussels. In article 44, entitled “Resources for Cooperation”, it establishes that “*The parties will urge the European Investment Bank to continue its activities in Mexico*”¹⁷.

This new disposition resulted in the signing of a new “Framework Agreement for Financial Cooperation between the United States of Mexico and the EIB”¹⁸ in which reference is made to “that which is stipulated in article 44 of the Global Agreement” and establishes the general conditions under which the Bank may operate in Mexico. In particular, it stipulates that “*the objective of the current agreement is the concession of loans by the Bank, directed at the implementation of investment projects considered of interest by the State*”¹⁹ and that “*the beneficiaries will designate to any person, physical or legal, public or private, that will benefit by the financing granted by the Bank for any project*”²⁰.

Article 44 establishes a direct relationship between the Global Agreement and the Agreement for Financial Cooperation, that is, between the European Union cooperation strategy and priorities and the operational framework for the EIB in Mexico. However, none of these documents state clearly the guiding objective for EIB operations in the country. While Article 44 of the Global Agreement considers the EIB to be a “source of resources for cooperation”, it does not define the EIB orientation objectives, when, in contrast, it states in the case of “the resources mobilized by the Parties” that these be mobilized in order to “reach the cooperation objectives of the current Agreement”²¹. In the Agreement

¹⁴ *Ibid.*, article 1, insert 1.

¹⁵ *Ibid.*, paragraph (1).

¹⁶ “Agreement on Economic Partnership, Political co-ordination and Cooperation between the European Community and its Member States, as one party, and the United States of Mexico as the other party” signed in Brussels on 8 December 1997 (in effect since the 1 October 2000).

¹⁷ “Agreement on Economic Partnership, Political co-ordination and Cooperation”, *Op.cit.*, title VI, article 44, insert 2.

¹⁸ “Framework Agreement for Financial Cooperation between the United States of Mexico and the European Investment Bank” signed between Mrs. Isabel Martín Castellá, vice-president of the European Investment Bank and Mr. Porfirio Muñoz Ledo, Mexican Ambassador to the European Union, in Luxembourg on 13 November 2003. This new Agreement substitutes the first Framework Agreement signed between the EIB and the Mexican State on 9 March 1995, however, it has yet to come into effect as it has not been ratified by the Mexican Senate of the Republic.

¹⁹ “Framework Agreement for Financial Cooperation”, *Op.cit.*, article 1.

²⁰ *Ibid.*, article 2.

²¹ “Agreement on Economic Partnership, Political co-ordination and Cooperation”, *Op.cit.*, title VI, article 44, insert 1.

for Financial Cooperation, the financing objective is considered to be of *interest to the State*, without specifying its contents.

* * *

In conclusion, the EIB mandate in Mexico, as defined in the Global Agreement and the Framework Agreement for Financial Cooperation, remains as ambiguous as the ALA Mandate established by the European Council, giving rise to diverse interpretations of the principle of *mutual interest*. Despite this ambiguity, and the fact that the Bank has not shown any major interest in including a development criteria orientation for its operations in the ALA region²², experts have argued that the criteria of *mutual interest* implies, in all cases, the respect for the guiding principles of the European Union external policy and in particular, the development of the country considered²³. In this way, a direct link is established between the Bank operations and the EU external policy and in particular, its cooperation policy for development. It is with this logic that an overview is presented of the European Union cooperation priorities for the ALA countries and specifically, for Mexico, constituting the reference framework for the subsequent analysis.

²² Interview with Francisco de Paula Coelho, Director for Asia and Latin America – EIB, 4 April 2005, Mexico.

²³ European Parliament. External Study on "The development Impact of European Investment Bank (BEI) Lending operations in the Cotonou and ALA Framework". *Op. cit.*

II. European Union cooperation priorities in Mexico

1. European Union cooperation priorities for the ALA region

The Constitutive Treaty of the European Community sets out the following objectives with regard to cooperation policy: “the lasting economic and social development of developing countries and in particular, of the most disadvantaged; the harmonic and progressive insertion of developing countries into the world economy; the fight against poverty in developing countries”²⁴.

For the ALA region, European Union assistance and cooperation policies are defined in the European Council Regulation n° 443/92 of 25 February 1992²⁵. With regard to financial and technical assistance, the following areas of priority action are stressed: the mobilization of domestic, economic and human resources in the poorest areas (article 4), as well as the development of the rural sector, including actions to promote employment in rural areas (article 5). Furthermore, protection of the environment and natural resources as well as a gender perspective are considered to be guiding principles to be taken into account in every action of cooperation (article 5). In matters of economic cooperation, the principal objective of the European Union for the area is to contribute to the development of the countries, in particular, by promoting international trade and strengthening the role of business, technology and private sector know-how, including the Small and Medium-sized Enterprises (SME) (article 7). In addition, the Regulation considers that: “the recipients of aid and partners in cooperation may include not only the States and regions, *but decentralized authorities, regional organizations, public agencies, local or traditional communities, private institutions and operators, including cooperatives and non governmental organizations*”²⁶.

2. The “Agreement on Economic Partnership, Political co-ordination and Cooperation” (Global Agreement)

In accordance with the Global Agreement, signed in December 1997, the European Commission and Mexico formalized a relationship of association based on three fundamental pillars: political dialogue, free trade and cooperation. At the centre of this new relationship, both parties emphasized the “respect for democratic principles and human rights as stated in the Universal Declaration of Human Rights”²⁷.

Section VI of the Global Agreement establishes the sectors and priority actions for cooperation. In particular, emphasis is placed on the promotion of actions in industry (article 14), agricultural sectors (article 21), mining (article 22), energy (article 23) and

²⁴ “Constitutive Treaty of the European Community”, Title XX regarding Development Cooperation, article 177.

²⁵ European Council. Council Regulation (EEC) N° 443/92 of 25 February 1992 on financial and technical assistance to, and economic cooperation with, the developing countries in Asia and Latin America, Official Journal L052, 27/02/1992.

²⁶ European Council. Council Regulation (EEC) N° 443/92 of 25 February 1992, *Op.cit.*, article 3.

²⁷ “Agreement on Economic Partnership, Political co-ordination and Cooperation”, *Op.cit.*, title I, article 1.

fishing (article 35), as well as transport (article 24), tourism (article 25) and the protection of the environment and natural resources (article 34). The SME's appear as key actors in the new cooperation strategy. Specifically, the Signing States commit to the promotion of favourable conditions for the development of SME's and in particular, to "*promote contact between economic agents, encourage joint investments and the establishment of joint companies [...]*" and to "*facilitate access to financing, provide information and stimulate innovations*"²⁸ in this sector. With regard to cooperation in social matters and the fight against poverty, the States "*recognize the importance of harmonizing economic and social development, preserving the fundamental rights of most vulnerable groups*" and seek "*the promotion of growth that generates employment and assures improved quality of life for the most disadvantage sectors of the population*"²⁹.

3. The European Commission "National Strategy Paper" for Mexico

The European Commission also has a "National Strategy Paper" for Mexico in which cooperation objectives, strategic priorities and concrete areas of intervention are defined for the period 2002-2006³⁰.

With regard to the principles and objectives of the cooperation policies, the Strategy Report states that the main objective of the cooperative relations between the European Commission and Mexico is to support the implementation of the Global Agreement in all its dimensions³¹. Cooperation is considered to be "a pillar of the bilateral relations, focusing on co-financing and the pursuit of mutual objectives". Nevertheless, it later states that "in the short-term, the EC strategy must include a development dimension, in order to support Mexican efforts to fight against inequalities, in particular suffered by indigenous peoples [...]"³².

The general objectives and the priority areas of action for the European Community in Mexico are divided into four areas³³:

- *Social development and reduction of inequalities*, with the general objective of promoting grassroots social and economic development in local communities and municipalities in the poorest regions of the country.
- *Economic growth* oriented towards strengthening the operation of the free trade area included in the trade chapter of the Global Agreement, as well as the promotion of mutual interest activities, giving priority to the participation of the private sector and the development of Mexican SME's activities with the aim of increasing their competitiveness and efficiency as well as providing them with technical and technological knowledge.

²⁸ *Ibid*, title VI, article 17.

²⁹ *Ibid*, title VI, article 36.

³⁰ The National Strategy Paper (2002-2006) was accorded with the Mexican authorities and finally presented and approved in the meeting of the DC-ALA Committee (Developing Countries in Asia and Latin America) in May 2000. European Commission. National Strategy Paper, 2002-2006, Mexico, p 1.

³¹ European Commission. National Strategy Paper, *Op.cit.*, section 5.1.

³² *Ibid*.

³³ *Ibid*, section 5.2 and 6.2.

- *Scientific and technical cooperation*
- *The consolidation of Rule of Law and Institutional support*

Furthermore, the strategy considers certain guiding principles to be taken into consideration throughout the programme cycle, from identification through to evaluation: Gender, environment, respect for cultural diversity and traditional values, decentralization and civil society participation. Protection of the environment and especially the promotion of new technologies and cleaner energies also constitute key concerns of the Commission³⁴.

³⁴ *Ibid*, section 6.3.

III. General Overview of EIB loans in Mexico

1. Presentation of EIB financed projects in Mexico (1993-2005)³⁵.

The EIB mandate to operate in the ALA (Asia and Latin America) region dates from 1993, and it was finally in March 1995 that the first “Framework Agreement for Financial Cooperation between the EIB and the United States of Mexico” was signed, initiating the possibility of project finance in the country. Since then, four Mexican projects have received loans from the EIB: “Vidrio Saint-Gobain”; “MexiGas” (two loans); “Vetrotex America”; and “Volkswagen” projects.

“VIDRIO SAINT-GOBAIN” Project

The first EIB loan in Mexico was signed on 12 May 1997, under the ALA Interim mandate with the company Vidrio Saint-Gobain of Mexico for the sum of 50 million euros. The credit accounted for 41% of the total cost of an investment destined for the construction of a new flat glass factory of the Saint-Gobain Glass Group, near the city of Cuautla, State of Morelos. The factory was planned to have a floating glass production line and two lines of transformation of SGG COOL-Lite (reflective glass) and SGG-STADIP (laminated glass), with its production aimed principally at the construction and automobile industries³⁶. The total of the funds has been paid out by the EIB.

“MEXI-GAS” Project³⁷

The EIB granted two loans to Consortium Mexi-Gas in the framework of the ALA II Mandate: the first on 20 December 1999 and the second on 22 June 2000, for a total of approximately 74.3 million euros³⁸. These loans represented 22.7% of the total investment for the construction and operation of natural gas distribution grids/ network in the Valley of Cuautitlán-Texcoco, State of Mexico, an urban zone that adjoins Mexico City. The project financed by the EIB aimed to improve the existing technical norms and security of the gas distribution network as well as to extend the service. All funds have been paid out by the EIB.

“VETROTEX AMERICA” Project

On 24 January 2001, in the framework of the ALA III Mandate, the EIB granted a loan of 15.9 million euros to Vetrotex America, a company that forms part of the Saint-Gobain Vetrotex group. It is the only Mexican loan that has been totally repaid. The financing covered 27% of the investment for the construction of a fibreglass factory near the city of Puebla, State of Puebla.

“VOLKSWAGEN” Project³⁹

The loan to Volkswagen de Mexico is the most recent operation of the EIB in Mexico and was granted in the framework of the ALA III Mandate. Negotiations concluded on 7 October 2004, at which time the loan for 70 million euros was signed to support the

³⁵ This section is based on information from the European Investment Bank – Latin American Division, answer to the “EIB Questionnaire”, questions 3 and 5.

³⁶ Saint-Gobain Glass México webpage of: www.saint-gobain-glass.com.mx.

³⁷ A more detailed analysis of this project is presented in Part II of this report

³⁸ The first loan was for 26,622,472 euros and the second for 47,717,842 euros.

³⁹ A more detailed analysis of this project is presented in Part II of this report

extension of facilities at the Volkswagen plant in Puebla, State of Puebla. This project will allow the production of the “Jetta A5” model as well as an engine with low emission levels. The loan aims to cover 9% of the total investment. The funds have not been paid out, as the Senate of the Republic has not yet ratified the Framework Agreement for Financial Cooperation between Mexico and the EIB.

Within the framework of the ALA mandates, the total credit awarded to Mexican projects since 1993, including “Volkswagen Mexico” project amounts to 210.2 million euros, representing 6% of the total of loans to the ALA region⁴⁰ and 9.5% of the credit to Latin America⁴¹. Mexico takes third place in Latin America in terms of total loans, following Brazil and Argentina that received loans for 1,039.2 and 468.7 million euros respectively⁴². The average loan for Mexican projects has been 52.55 million euros during the 10 years of operation in the country.

Table: EIB Loans in Mexico (1993-2005) (in millions of euro)

Project Name/ Year	1997	1999	2000	2001	2004	1997-2004
VIDRIO SAINT- GOBAIN	50					
MEXI-GAS		74.3				
VETROTEX AMÉRICA				15.9		
VOLKSWAGEN MEXICO					70	
TOTAL						210.2

Source: Devised by author, based on figures of the European Investment Bank

⁴⁰ Calculation based on figures from the EIB: European Investment Bank. Asia and Latin America (ALA). Annual Press Conference 2005, Briefing note No.11, Luxembourg, 3 February 2005.

⁴¹ Calculation based on figures from the EIB: European Investment Bank. Asia and Latin America (ALA). *Op.Cit.*

⁴² European Parliament. External Study on “The development Impact of European Investment Bank (EIB) lending operation in the Cotonou and ALA Framework”. *Op. cit*, table 2.7, p 52.

2. Identification and analysis of EIB priorities in Mexico

Areas of cooperation prioritised by the EIB

The per-sector breakdown of EIB operations in Mexico highlights the lack of diversification of activities. Loans have been concentrated in industry (approximately 65%), shared between the automobile sector, the glass sector (whose production is aimed, in part, at the automobile industry), and in energy (approximately 35%).

Table: EIB loans by sector

	Total amount granted by the EIB per sector (in millions of euros)	Portion of financing afforded to each sector (in %)
Glass Sector	65.9	31.34 %
Automobile Sector	70	33.31%
Total Industry	135.9	64.65%
Energy Sector (Natural Gas)	74.3	35.35%
TOTAL	210.2	100%

Source: Devised by author, based on figures of the European Investment Bank

While the promotion of industry constitutes one of the priority areas for the European Union in terms of cooperation, the EIB has directed the major part of its loans to the automobile industry, an already well-consolidated sector in the commercial relationship between Mexico and Europe. Revision of the figures for external trade between these two regions shows that after petroleum, automobile industry products constitute the principle Mexican export to the European Union, reaching a total value of 629.4 million dollars in 2003, that is, 11% of the total of all exports⁴³. The EIB has not considered directing its loans to other branches of industry or the agricultural and fishing sectors, despite these being priority action areas for the European Commission in its cooperation strategy for the country.

Cooperation in the energy sector also constitutes a bilateral cooperation priority between the European Union and Mexico. Through the "Mexi-Gas" project, the EIB has directed 35% of the total volume of its loans to a project that seeks to promote the use of new technology and the use of cleaner energy. However, projects that promote renewable sources of energy that are not fossil based – wind energy, solar energy, geo-thermal energy or biomass energy – are not considered within the EIB portfolio in Mexico. By exclusively prioritizing the transition of natural gas, the Bank fails to take into consideration the European Union call for the promotion of renewable sources of energy⁴⁴ or its own directives on the matter⁴⁵.

⁴³ Economic Ministry. "Relación de México con sus socios comerciales", chapter IV about Europe, pp 17-19, Economic Ministry webpage: www.se.gob.mx.

⁴⁴ European Commission: White Paper on Renewable Energies COM (97) 599 / European Council. Council Resolution of 08/06/1998 on Renewable Sources of Energy / European Commission. "European Climate Change Programme" (ECCP), June 2001.

⁴⁵ European Investment Bank: European Investment Bank and Renewable Energy, Statement and Press Release at June 2004 Renewable Energy Bonn Conference, June 2004.

Beneficiaries prioritized by the EIB

All the beneficiaries of EIB loans belong to the private sector and are all either subsidiaries of European companies or joint European/Mexican companies with little participation of Mexican capital. Volkswagen de México is the Mexican subsidiary company of the German Volkswagen Group; Vidrio Saint-Gobain de México forms part of a group that is 80% owned by the Saint-Gobain Glass Group, the glass branch of the French group Saint-Gobain. This situation is repeated in the case of Vetrotex América that is 80% owned by the Saint-Gobain Vetrotex Group, the branch of the French Saint-Gobain group that controls the production and marketing of fibreglass. Originally, the Mexican company, Bufete Internacional, controlled 25% of the “Mexi-Gas” Consortium; however, following the bankruptcy of this company, the Consortium is now 100% owned by Gaz de France⁴⁶.

The EIB claims that “all European Union companies can have access to EIB loans in ALA”⁴⁷, however, in the case of Mexico, European corporations represent the major beneficiaries of EIB loans. By virtue of the Framework Agreement for Financial Cooperation, the Bank is entitled to provide loans to “any person, physical or legal, public or private”⁴⁸, however, neither Mexican SME’s, nor the public sector have been considered as possible beneficiaries of the Bank loans.

All EIB operations have been undertaken according to the credit line of “individual loans”. In order to finance SME’s, which represent lower cost operations, the EIB generally appeals to a specific credit line, the “global loan”, granted to financial institutions that serve as intermediaries in the loaning of funds to SME’s. Despite the fact that SME’s represent approximately 98% of Mexican companies⁴⁹ and that they are considered as privileged partners in the strategy for cooperation between the European Commission and Mexico, the EIB has not granted any global loans, nor mobilized other types of technical assistance mechanisms to promote SME activities. While the European Commission Delegation in Mexico is only able to implement assistance programs to SME’s, such as the Integral Program of Help for Small and Medium Firms (PIAPYME)⁵⁰, the EIB has a mandate to support projects with risk capital lines⁵¹. Nevertheless, in its 10 years of operation, it has not directed any financial credit to Mexican SME’s.

In the Council Regulation N°443/92, it stipulates that partners in cooperation in the ALA region should include “*States and regions, decentralized authorities, regional organizations and public agencies*”⁵². In the case of Mexico, the EIB has not privileged the public sector in its financial strategy. “Global loans” for public institutions have not been considered as an option by the EIB despite the fact that such financial aid would be pertinent to the fulfilment of the social development objective proposed by the European Commission in its Strategic Report and to support “*Mexican efforts to fight against inequalities, in particular suffered by indigenous peoples*”⁵³.

⁴⁶ Interview with Nicolas Verges, Finance and Management Director – Consortium Mexi-Gas, 4 April 2005, Mexico.

⁴⁷ European Investment Bank – Latin American Division answer to the “EIB Questionnaire”, question 4.

⁴⁸ “Framework Agreement for Financial Cooperation”. *Op. cit.*, article 2.

⁴⁹ European Commission. National Strategy Paper. *Op. cit.*, section 3.2.2.

⁵⁰ For more information about the PIAPYME, see information of the webpage: www.cemue.com.mx This program has a designated budget of 24 million euros.

⁵¹ Interview with Claudia Berlanga, Economic Advisor - European Union Delegation in Mexico, 23 March 2005.

⁵² European Council: Council Regulation (EEC) No 443/92 of 25 February 1992, *Op. cit.*, article 3.

⁵³ European Commission. National Strategic Paper, *Op. cit.*, section 5.1.

EIB loans are underwritten by the European Community budget to facilitate investments in risk capital sectors. This opportunity should be used to promote the activities of Mexican SME's and, in general, to finance activities in greater risk sectors. However, to date, EIB loan activities have been concentrated in well consolidated sectors and in the hands of companies dominated by European capital; both sectors and beneficiaries are characterized by their capacity to generate and attract alternative sources of capital and do not need to be guaranteed against risk by the European Community budget.

IV. Development Impacts of Mexican projects financed by the EIB⁵⁴

1. Environmental impacts of the Mexican Projects

Of the four projects financed in Mexico, “Mexi-Gas” is the only one that directly considers the protection of the environment as part of its objectives. According to the EIB, this project is aimed at the diversification of the energy offer and the prioritization of a less polluting energy (natural gas) in comparison with other fossil fuels, resulting in a reduction in air pollution in heavily populated areas⁵⁵. This objective is in line with one of the concerns of the European Union regarding environmental matters, namely, the promotion of less polluting energy sources. However, to date, the “Mexi-Gas” project has had a limited effect in the reduction of pollution levels in the Valley of Cuatitlán-Texcoco, as the natural gas distribution network covers only 35% of the population initially considered in the project (130,000⁵⁶ clients rather than the 340,700⁵⁷ proposed in the original tender of bid). In addition, it is worth noting that natural gas is an energy source that, while less polluting than other traditionally used fossil fuels, is nevertheless a non-renewable natural resource. The “Mexi-Gas” project, rather than promoting the rational use and saving of energy sources, is based on the promotion of domestic, industrial and commercial natural gas consumption, a natural resource of limited quantity. As the expected increase in consumption can only result in an increase in the exploitation of national reserves, this project cannot really be considered as a true energy supply alternative as it is not sustainable in the long term.

The EIB⁵⁸ reported that the promoters of the four financed projects carried out an environmental impact evaluation, in accordance with the General Law for Ecological Equilibrium and Environmental Protection (LGEEPA) and its regulations⁵⁹. All four projects are considered to be “works or activities that require authorization in matters of the environmental impact”⁶⁰. In accordance with Mexican norms, the developers of the projects were obliged to present an “Environmental Impact Assessment” to the Mexican Ministry of the Environment, Natural Resources and Fishing (SEMARNAT), the institution responsible for “evaluating the environmental impact and emitting the corresponding permissions for the implementation of projects”⁶¹.

While the Bank is obligated to operate according to Mexican national legislation and, in particular, to finance projects that have been previously authorized by SEMARNAT, this

⁵⁴ This section is based on a general analysis of the four projects financed by the EIB in Mexico: “Vidrio Saint-Gobain”, “Vetrotex”, “Mexi-Gas” and “Volkswagen” projects. A more detailed analysis of the last two projects appears in the second section.

⁵⁵ European Investment Bank – Latin American Division, answer to the “EIB Questionnaire”, question 5.

⁵⁶ Nicolas Verges, Finance and Management Director – Consortium Mexi-Gas, answer to the “Questionnaire Mexi-Gas”, question 1.

⁵⁷ Energy Regulation Commission. Licitación Pública Internacional para otorgar permisos de distribución de gas natural en el Distrito Federal y el Valle de Cuatitlán-Texcoco. Fallo de las licitaciones públicas internacional LIC-GAS-008-1997 y LIC-GAS-009-1997 para distribuir gas natural en el Distrito federal y el Valle de Cuatitlán-Texcoco”, 4 August 1998.

⁵⁸ European Investment Bank - Latin American Division answer to the “EIB Questionnaire”.

⁵⁹ “General Law for Ecological Equilibrium and Environmental Protection”, (“Ley General del Equilibrio Ecológico y la Protección al Ambiente”) published in the Official Journal on 28 January 1988 / “Regulations to the General law for Ecological Equilibrium and Environment Protection in matters of Environmental Impact Evaluation” (“Reglamento a la Ley General del Equilibrio Ecológico y la Protección al Ambiente en materia de Evaluación del Impacto Ambiental”) published in the Official Journal on 30 May 2000.

⁶⁰ “Regulations for the General law for Ecological Equilibrium and Environmental Protection”. *Op.cit*, chapter II “Works or activities that require authorization in matters of environmental impact and exceptions”.

⁶¹ *Ibid*, article 4, insert 1.

does not except it from its commitment to “carry out a comprehensive assessment of the environmental aspects of each project” and to “conclude, based on this assessment, whether each project complies with the Community policy and legislation in the field of environment”⁶². However, in the case of Mexico, it appears that the Assessment for SEMARNAT has substituted the Environmental Impact Assessment (EIA) undertaken by the Bank itself, and based on the directives, principles and standards contained in the European Union norms and environmental policies, and in particular on the Directive 91/11/EC regarding EIA⁶³. The EIB does not mention having undertaken such an exercise in any of the Mexican cases⁶⁴. Neither, it appears, has it been concerned with showing that the Mexican EIA is based on “appropriate environmental principles and standards, in particular those enshrined in the European Union policy and legislation”⁶⁵. In fact, the Mexican legislation proposes standards below those applicable in the European Union⁶⁶. In particular, the EIA only considers environmental questions⁶⁷ and does not evaluate the impact of the projects on the “habitat”, or its social and indirect impacts. Given this, the implementation of an EIA, according to the criteria established by the European Union, is all the more necessary and pertinent in the Mexican context.

2. Social Impacts of the Mexican Projects

There is little evidence to suggest that the four projects financed by the EIB have contributed to the social development objectives set out in the strategic documents of the European Union cooperation policy.

With regard to the generation of employment, the EIB claimed that the “Mexi-Gas” project resulted in an “increase of staff from 123 to approximately 300 permanent people (in the company)” in addition to the creation of 177 new jobs, “an average of 20 000 temporary and variable employment for technical services and construction”⁶⁸. With regard to the “Vidrio Saint-Gobain” project, it reported “the creation of 263 new permanent jobs, which also led to an increase of the overall income of the region”⁶⁹. The Bank estimated that the Vetrotex Mexico plant contributed to “the creation of approximately 165 new direct jobs” and “furthermore, subcontracted maintenance provided additional 50 jobs in local suppliers” while the Volkswagen project will “secure some 1,600 direct jobs at the Puebla

⁶² European Commission. “Working procedures between the EIB and the Commission services (DG ENV and DG ECFIN) in the consultation of the Commission under Article 21 of the EIB Statute”, paragraph 2.1.2.

⁶³ European Council. Council Directive 97/11/EC of 3 March 1997 amending Directive 85/337/EEC on the assessment of the effects of certain public and private projects on the environment, Official Journal NO. L 073, 14/03/1997, p 5.

⁶⁴ European Investment Bank - Latin American Division, answer to the “EIB Questionnaire”.

⁶⁵ European Commission. “Working procedures between the EIB and the Commission services (DG ENV and DG ECFIN)”, *Op.cit.*, paragraph 2.1.1.

⁶⁶ Interview with Tania Mijares, Mexico Centre for Environmental Rights (Centro Mexicano de Derecho Ambiental – CEMDA), 22 March 2005, Mexico.

⁶⁷ In article 12 of the regulations, it stipulates that the environmental impact assessment should include the following information: General details of the project, the developer and the person responsible for the environmental impact study; Description of the project; Reference to the applicable legal orders in matters of the environment, and where applicable, with the regulation regarding zoning regulations; Description of the environmental system and reference to the detected environmental problem in the area of project implementation; identification, description and evaluation of environmental impact; Preventative measures and the mitigation of environmental impacts; Environmental prognosis and, where applicable, evaluation of the alternatives; Identification of methodological instruments and technical elements that support the information noted in previous sections”. “Regulations for the General law for Ecological Equilibrium and Environmental Protection”, *Op. cit.*, article 12.

⁶⁸ European Investment Bank - Latin American Division answer to the “EIB Questionnaire”, question 5.

⁶⁹ *Ibid.*

plant, as well as substantial number of indirect, local job". In conclusion, it appears that the 210.2 million euros invested by the EIB in Mexico, seeks to generate a total of 2,205 permanent jobs, a relatively insignificant figure given that in 2003, the economically active population (EAP) in Mexico reached 41.4 million⁷⁰ and that in 2002, the informal sector of the economy incorporated 42.8% of the EAP⁷¹. These statistics reflect both the persistent deficit in employment in Mexico and the minimal contribution of the projects financed by the EIB towards reverting this tendency. Furthermore, the companies considered generally opt for labour policies that favour the creation of temporary jobs, rather than permanent posts, thereby contributing to the precariousness and flexibility of labour relations, and violating labour rights enshrined in article 123 of the Mexican Constitution as well as in international labour treaties and conventions. Volkswagen, in particular, is known to have an anti labour union policy. In recent years, the company has been repeatedly challenged by the Independent Workers Union of the Volkswagen Automobile Industry (SITIAW) for the implementation of regressive labour policies in terms of rights.

EIB activities have been concentrated in the Metropolitan Area of Mexico City and the adjacent regions (States of Puebla, Tlaxcala and Morelos). In contrast, the south-eastern states of the country, in particular Chiapas, Oaxaca and Guerrero, that occupy last place in the United Nations Development Program (UNDP) classification based on the Human Development Index (HDI)⁷², have not received any EIB loans. By concentrating its operations in the centre of the country, the EIB has not attended to the social development objective expressed in the National Strategy Paper, which calls for the support of "economic and social development at grass roots level through local communities and municipalities in the poorest parts of the country"⁷³.

The "Mexi-Gas" project has also not resulted in the promotion of equal access to modern energy sources for the poorest sectors of the population. The extension and operation of the natural gas distribution network, in the hands of the private sector operating with the criteria of economic viability rather than with a public service vision, has not promoted access to alternative energy sources for the most disadvantaged sectors of the population nor contributed to the promotion of "a better standard of life for the most disadvantaged sector of the population"⁷⁴.

Despite the consideration of a gender perspective being a guiding principle of European Commission cooperation policy, this has not been taken into account in EIB operations. The differential gender impact of structural adjustment policies in the country has been well documented⁷⁵. The loss of household income has, to a large degree, been compensated by the increase in female participation in the labour market, most often in

⁷⁰ Centre for Reflection and Action on Labour Issues (Centro de Reflexión y Acción Laboral - CEREAL). Diagnóstico de la ONU: al rescate de los derechos humanos laborales. Informe de violaciones a los Derechos humanos laborales en México durante el año 2003. México, 2003. Appendix: Basic national indicators regarding occupation. Produced by UNITE with figures from INEGI, p 83.

⁷¹ United Nations High Commission for Human Rights (UNHCHR). *Diagnóstico sobre la situación de los derechos humanos en México*. Mundi-Prensa Mexico, Mexico, 2003, p 78.

⁷² The South-eastern states, in particular the states of Chiapas, Oaxaca and Guerrero present the lowest HDI of the UNDP in the country: 0.692; 0.697 and 0.722 respectively. The national HDI average is 0.801. UNDP. *Informe sobre Desarrollo Humano, México 2002*. Mundi prensa Mexico 2003, table A1, p 126.

⁷³ European Commission. National Strategy Paper. *Op.cit.*, section 6.2.

⁷⁴ "Agreement on Economic Partnership, Political co-ordination and Cooperation", *Op.cit.*, title VI, article 36.

⁷⁵ UNHCHR. *Diagnóstico sobre la situación de los derechos humanos en México*, *Op.cit.*, p 142.

precarious and unequal labour conditions⁷⁶. EIB operations have not focused on reverting this situation and none of their projects contemplate promoting productive activities for women nor their integration into the labour market under better working conditions.

3. Purpose of EIB operations in Mexico

In its ten years of operation in Mexico, the EIB has oriented and concentrated its loans to European companies already established in the country. In three of the projects (two of Saint-Gobain and Volkswagen), the EIB loans supported investments oriented at increasing exports for European companies. Volkswagen projects that almost 80% of the new Jetta A5 will be exported to the United States and Canada⁷⁷. In the case of the Saint-Gobain projects, it is planned that “in addition to supplying the internal market, a part of the production will be exported to Central and Latin America as well as to the United States”⁷⁸. Far from “facilitating the implementation of the Free Trade Area included in the trade chapter of the global agreement”⁷⁹ and improving Mexican SME export opportunities into the EU, the projects financed by the Bank favour the activities of large European groups already established in the country, as well as their penetration in the Latin American markets and / or the taking advantage of the Free Trade Zone created between Mexico, the United States and Canada in the North American Free Trade Agreement (NAFTA), in vigour since 1 January 1994.

The interest of European companies is also prioritised in the case of the “Mexi-Gas” project that promotes the activities of a European group, Gaz de France, in the natural gas distribution sector, rather than promoting Mexican companies. In addition, the EIB loan has acted to strengthen foreign investment in a sector whose deregulation and privatisation have been extremely controversial. In 1995, a reform was passed to the Regulatory Law for Article 27 of the Constitution regarding the Petroleum industry⁸⁰. This was described as being “unconstitutional” by various sectors in the country. Article 27 of the Mexican Constitution declares that “with regard to petroleum and other solid, liquid or gas fossil fuels or radioactive minerals, no concessions or contracts will be granted nor will those that have been granted be upheld [...]”⁸¹. In contrast, the main objective of the 1995 reform is the promotion of private participation in the energy sector and has resulted in the creation of groups with majority foreign capital, such as the Mexi-Gas Consortium, expressly to take advantage of the profit opportunities represented by the deregulation and opening up of this sector.

⁷⁶ The percentage of women in the EAP who do not receive an income is higher than that of men (13.4% against 9.1% in 2000) and are less represented in the opposite extreme of the salary pyramid: of the total EAP, only 7.5% of women earn more than 5 times the minimum salary, while 11.7% of men earn this amount. Figures from UNMUJERES/ UNIFEM, 2001 cited in: UNHCHR, *Op.cit.*, p 142.

⁷⁷ European Investment Bank – Latin American Division, answer to the “EIB Questionnaire”, question 5.

⁷⁸ European Investment Bank. “Prêt de la BEI en faveur d'une usine mexicaine de verre: Vidrio Saint-Gobain de Mexico”. Communiqués de Presse, Réf. 1997-034, 22/05/1997.

⁷⁹ European Commission. National Strategy Paper, *Op.cit.*, pp22-24.

⁸⁰ “Regulatory law for Article 27 of the Constitution with respect to Petroleum” (“Ley reglamentaria del Artículo 27 Constitucional en el ramo del Petróleo”) reform published in the Official Journal on 11 May 1995, article 4.

⁸¹ Political Constitution of the United States of Mexico, article 27.

In Mexico, the principle of *mutual interest* has been interpreted by the EIB as being economic and long term benefits for European companies with a minimal attention to the country's development needs. In the current context of economic opening-up, the strengthening of internal markets and the competitiveness of Mexican companies constitute the principal challenge in assuring the economic viability of the country. However EIB activities have not been in the EU or Mexico's best interest but in the interest of a small group of private European companies and for projects with little socioeconomic and environmental benefits for the Mexican population. Cooperation can only be in the Mexican "interest" if it focuses on the strengthening of internal markets and is translated into actions oriented towards the promotion of Mexican SME activities and their participation in the world economy, as considered in the objectives of the cooperation policies of the European Union. The EIB has also neglected the promotion of activities and employment in rural areas in its financial strategy, despite these being strategic considerations in the economic and social development of the country. The only way that the Bank's activities and investments can seek to contribute to an appropriate development of the poorest regions of the country is by orientating these towards the generation of employment under conditions of respect for labour rights and promoting activities that have been previously consulted and agreed upon by the communities, according to their own needs.

4. The Relationship between the EIB and the European Commission Delegation in Mexico.

The absence of coordination between the EIB and the European Commission Delegation in Mexico was made evident in the research process. The relationship between these two institutions is limited to "formal visits" when representatives of the Bank visit Mexico. The Delegation only has access to reports of the Bank activities, and has neither detailed information nor access to documents that correspond to the Mexican projects financed by the Bank. Furthermore, they do not participate nor are they consulted by the Bank in any phase of the project (approval, supervision and / or evaluation)⁸².

At the end of 2004, the European Commission Delegation in Mexico had not had any contact with the promoters of the projects financed in the country. In fact, it was only as a result of the Mexican Senate's failure to ratify the Financial Cooperation Agreement, that Volkswagen contacted the Delegation⁸³.

The European Union Delegation in Mexico positively evaluates the relationship established between the Global Agreement and the Framework Agreement for Financial Cooperation⁸⁴, considering it to be an advance towards greater relations between EIB activities in Mexico and the priorities areas of the Global Agreement⁸⁵. However, it is noted that until now, this has not materialised, that is, that the EIB lending operations have not been especially oriented towards projects consistent with the spirit of the Agreement; a conclusion that coincides with the main conclusions of our investigation.

⁸² Interview with Claudia Berlanga, Economic Advisor - European Commission Delegation in Mexico, 23 March 2005, Mexico.

⁸³ Ibid.

⁸⁴ See part One; section 1.4

⁸⁵ Interview with Claudia Berlanga, *Op.cit.*

Part Two:

Analysis of two Mexican projects financed by the EIB

I. EIB Loan for the “Mexi-Gas” project

1. The Context of the “Mexi-Gas” project: privatization of the Mexican energy sector

The “Mexi-Gas” project is part of the privatization process of the Mexican natural gas sector which resulted from the reform of the regulatory law of Article 27 of the Constitution with respect to Petroleum, adopted in 1995. In the case of natural gas in particular, the new law stipulates that “the transport, storage and distribution of gas can be carried out, with prior permission, by social and private sectors, which can construct, operate and own ducts, installations and equipment, under the legal, technical and regulatory provisions applicable”⁸⁶.

Until 1997, the natural gas ducts in the Valle de Cuautitlán-Texcoco in the State of Mexico were operated by “Distribuidora de Gas Natural del Estado de México” and “Pemex-Gas y Petroquímica Básica (PGPB)”, both Mexican parastatals. However, based on the new legal framework, on 14 November 1997, the Energy Regulation Commission (ERC), which had been set up in 1995 in order to supervise the privatization process of the gas and electricity industries, issued an international tender of bid to acquire “the rights necessary to provide the service of the distribution of natural gas in the Geographic Area of the Valley of Cuautitlán-Texcoco”⁸⁷. On 23 July 1998 Consortium Mexi-Gas which at that time was composed of Bufete Industrial Construcciones, Gaz de France International and Mexigas (a company which is also owned by Gaz de France)⁸⁸ won the tender of bid. On 3 September 1998 it was granted permission to carry out the distribution of natural gas through ducts in the area made up of 28 municipalities of the State of Mexico⁸⁹. This

⁸⁶ “Regulatory law for Article 27 of the Constitution with respect to Petroleum”, *Op. cit.*, article 4.

⁸⁷ Energy Regulation Commission. “Resolución por la que se expide la convocatoria para participar en la licitación Pública Internacional LIC-GAS-009-1997 que tienen por objeto adquirir los derechos necesarios para prestar el servicio de distribución de gas natural en la Zona Geográfica del valle de Cuautitlán-Texcoco” (RES/179/97), 14 November 1997. In this tender, the following participated on behalf of “Consortium Mexi-Gas”: the Consortium “Gas Natural México” made up of Gas Natural México, S.A. de C.V. and Gas Natural SDG, S.A.; the Consortium “Anáhuac” made up of Houston Industries Energy Inc, HIE México Venture, Ltd, and Gutsa Gas Natural, S.A. de C.V. and el Grupo Diavaz, S.A. de C.V.; and the Consortium “Proyectos de energía de México” made up of Controladora comercial y Industrial, S.A. de C.V. and Lone Star Gas Internacional, Inc.

⁸⁸ Energy Regulation Commission. “Resolución de la CRE sobre el Fallo de la Licitación Pública Internacional LIC-GAS-009-1997 que tienen por objeto adquirir los derechos necesarios para prestar el servicio de distribución de gas natural en la Zona Geográfica del valle Cuautitlán-Texcoco”, (RES/159/98), 23 July 1998.

⁸⁹ Energy Regulation Commission. “Resolución de la CRE sobre el otorgamiento del permiso de distribución de gas natural Núm. G/042/DIS/98 para la zona geográfica del Valle de Cuautitlán-Texcoco al consorcio integrado por Mexi-gas S.A., GDF Internacional, S.A. y Bufete Industrial construcciones, S.A. de C.V.”, (RES/186/98), 3 September 1998. The 28 municipalities are: Acolman, Atenco, Atizapán de Zaragoza, Coacalco, Cuautitlán, Cuautitlán Izcalli, Chalco, Chicoloapan, Chimalhuacán, Ecatepec, Huixquilucan, Ixtapaluca, Jaltenco, La Paz, Melchor Ocampo, Naucalpan, Nextlalpan, Nezahualcóyotl, Nicolás Romero, Tecámac, Teoloyucan, Tepetzotlán, Texcoco, Tlalneantla de Baz, Tultepec, Tultitlán, Valle de Chalco-Solidaridad and Zumpango.

permission was conferred exclusively for five years for the construction/extension of the natural gas distribution network and for 30 years to carry out reception, conduction and delivery of natural gas⁹⁰.

In the economic and technical offering documents presented to the Energy Regulation Commission for the tender of bid, Consortium Mexi-Gas agreed to maintain an average tariff of 1.088 dollars per gigocalorie for the first three years and to achieve a coverage level of at least 374 700 clients and a network length of 3.5 thousand kilometres by the fifth year of operation from the date the permission was granted⁹¹. In addition, the concessionaire agreed to invest a total of 282 million dollars⁹² in the distribution system. Part of this investment was partially covered by the EIB loans for a total amount of 74.3 million euros.

2. Analysis of the “Mexi-Gas” Project in its various phases⁹³

Environmental Impact Assessment (EIA) and Mitigation Measures

The EIB assured that “in the European Union similar gas distribution projects in urban areas fall under Annex II of Directive 97/11/CE of 3 March 1997, which does not make a formal environmental impact assessment mandatory, but leaves the decision to the competent authority in charge to request it, if considered appropriate”⁹⁴. In fact, Annex II states that projects for oil and gas pipeline installations are subject to article 4.2 of Directive 97/11/EC which sets forth that “the Member States shall determine through (a) a case-by-case examination or (b) thresholds or criteria set by the Member State, whether the project shall be made subject to an assessment”⁹⁵.

Under Mexican law, the Regulation to the General Law for Ecological Equilibrium and Environmental Protection (LGEEPA) stipulates with respect to Environmental Impact Assessments that “the construction of oleoducts, gas ducts, carboducts or poliducts for the conduction or distribution of hydrocarbons [...], require an authorization of environmental impact form the Mexican Ministry of the Environment, Natural Resources and Fishing (SEMARNAT) »⁹⁶. In accordance with Mexican law, the promoter Mexi-Gas carried out a « Environmental Impact Assessment (EIA)” with the support of an independent expert, which was presented and approved by the SEMARNAT⁹⁷.

⁹⁰ Energy Regulation Commission. “Aviso mediante el cual se comunica el otorgamiento del permiso de distribución de gas natural al Consorcio Mexi-gas, S.A., C.V.”, (SE/2110/98), Official Gazette, 14 September 1998.

⁹¹ Energy Regulation Commission. “Licitación Pública Internacional para otorgar permisos de distribución de gas natural en el Distrito Federal y el Valle de Cuautitlán-Texcoco. Fallo de las licitaciones públicas internacional LIC-GAS-008-1997 y LIC-GAS-009-1997 para distribuir gas natural en el Distrito federal y el Valle de Cuatitlán-Texcoco”, 4 August 1998.

⁹² *Ibid.*

⁹³ The consultant did not have access to documents related to the “Mexi-Gas” Project (Project document, Environmental Impact Assessment, etc.). The information presented and analysed in this section derives from interviews and questionnaires answered by the Consortium Mexi-Gas and the Director for Asia and Latin America of the European Investment Bank as well as other EIB documents consulted on its webpage, www.eib.org.

⁹⁴ EIB - Latin American Division, answer to the “EIB Questionnaire”, specific response on the “Mexi-Gas” Project.

⁹⁵ European Council. Council Directive 97/11/EC of 3 March 1997, *Op. cit.*, article 4.2.

⁹⁶ “Regulation to the General Law for Ecological Equilibrium and Protection of the Environment”. *Op. cit.*, article 5, c).

⁹⁷ Interview with Nicolas Vergés, Finance and Management Director - Consortium Mexi-Gas, Julio Camacho Viguera, Finance and Risk Management - Consortium Mexi-Gas and Francisco de Paula Coelho, Director for Asia and Latin America- EIB, 4 April 2005, Mexico.

When evaluating the environmental impact of the Mexi-gas project, the EIB only considered the results of the “Environmental Assessment”. It did not carry out any another kind of environmental impact evaluation, on the ground that with respect to the construction of natural gas ducts, Mexican law is more « demanding » than European law since it requires an EIA while this is not a requirement for the European Union in this kind of construction⁹⁸. However, the simple fact of requiring an EIA does not imply that Mexican law contemplates criteria and standards of impact assessment that are appropriate or coherent with those applied in the European Union. As stated in the first part of this Report, the EIA contemplated by Mexican law is not based on a wide view of the environment nor of “habitat” and does not take into account social considerations nor the indirect impacts of projects. The LGEEPA is based on criteria that are below those applicable in the European Union⁹⁹. The SEMARNAT has a limited view of the environmental impact of these kinds of constructions. In fact, the Bank states that in the “Environmental Assessment”, the impact of the project on the environment was estimated to be “temporary and mitigatable, or negligible mainly due to the urban character of the project area”¹⁰⁰. It is evident that the effects that the construction of the network could have in a heavily populated urban area were not taken into account, particularly the noise, public road interruptions, deterioration of highways, etc.

For the “Mexi-gas” project, as for the rest of the projects, the Bank did not fulfil its commitment¹⁰¹ either to carry out a comprehensive assessment of the environmental aspects of the project, in the light of the normative framework and environmental policies of the European Union, as defined in Directive 97/11/EC¹⁰², or to conclude on this basis whether the project complied with the Community policy and legislation in the field of environment¹⁰³.

Supervision Mechanisms and Final Evaluation of the Project

With respect to supervision mechanisms, the Bank stated that “the promoter provided regular information as requested by the Bank’s finance contract”¹⁰⁴. Every 6 months the Consortium Mexigas presented EIB with a report containing financial information as well as the progress of the project¹⁰⁵. These periodic reports constitute the only supervision mechanism established between the Bank and the Promoter.

⁹⁸ Interview with Francisco de Paula Coelho, Director for Asia and Latin America - EIB, 4 April 2005, Mexico.

⁹⁹ Interview with Tania Mijares, Mexican Centre for Environmental Rights, 22 March 2005.

¹⁰⁰ European Investment Bank – Latin American Division, answer to the “EIB Questionnaire”, specific response on the “Mexi-Gas” Project.

¹⁰¹ European Commission. “Working procedures between the EIB and the Commission services (DG ENV and DG ECFIN)”. *Op.cit.*

¹⁰² European Council. Council Directive 97/11/EC of 3 March 1997, *Op. cit.*

¹⁰³ European Commission. “Working procedures between the EIB and the Commission services (DG ENV and DG ECFIN)”, *Op.cit.* paragraph 2.1.2.

¹⁰⁴ European Investment Bank – Latin American Division, answer to the “EIB Questionnaire”, specific response on the “Mexi-Gas” Project.

¹⁰⁵ Interview with Nicolas Vergés - Finance and Management Director – Consortium Mexi-gas, Julio Camacho Viguera, Finance and Risk Management, Consortium Mexi-Gas, and Francisco de Paula Coelho, Director for Asia and Latin America - European Investment Bank, 4 April 2005, Mexico.

On the other hand, the Bank stated that the “Mexi-Gas” project has not yet been concluded, and as a result the final evaluation has not yet been carried out¹⁰⁶. Initially, the execution period was set for August 2004; however, the promoter mentioned having to confront a series of administrative obstacles, in particular, obtaining construction permits at the municipal level as well as the rivalry with the promoters of LP gas (Liquefied Petroleum Gas). These prevented compliance with the time period initially contemplated in the tender. The EIB agreed to grant extra time until July 2006 for the conclusion of the project. After this date, a final evaluation will be carried out by a team of independent experts¹⁰⁷.

Social or environmental problems in the implementation of the project

The EIB stated that it was “not informed about any environmental or social problem which may have occurred during the implementation of the project”¹⁰⁸. However, in the interview with the Promoter of the project, he himself reported having been confronted by the population of the area that was opposed to the project¹⁰⁹. On repeated occasions, there were demonstrations rejecting the construction of the network, bearing witness to the fact that this project does not have the approval of the population of the area.

The EIB and Mexi-Gas stated that the network distribution system provides a safer service¹¹⁰. However the “insecurity” of the gas networks is a recurring theme in the surveys done with 85 users of the natural gas network operated by Consorcio Mexi-gas in the geographic area of Valley of Cuautitlán- Texcoco, in the municipalities of Ecatepec and Cuautitlán Izcalli where the network has high coverage. More than half of those polled (60/85) considered the installations of the network to be unsafe, and inappropriate, with the possibility of causing accidents. As stated in an article published in a newspaper with national circulation *La Jornada*, “in Mexico, natural gas is known not for its service but for the explosions of its ducts: Tepepan, Acueducto de Guadalupe, Pedregal de Carasco [...]»¹¹¹.

3. The “Mexi-Gas” project: Impact on development and access to information

Economic, environmental and social impacts

In the economic and technical documents presented by the Consortium Mexi-gas to the Energy Regulation Commission in the tender of bid, the company agreed to achieve a level of coverage of at least 374.7 million clients as well as a network length of 3.5 thousand kilometres, in the fifth year of operation from the date of authorization of the

¹⁰⁶ *Ibid.*

¹⁰⁷ *Ibid.*

¹⁰⁸ European Investment Bank – Latin American Division, answer to the “EIB Questionnaire”, specific response on the “Mexi-Gas” Project.

¹⁰⁹ Interview with Nicolas Vergés, Finance and Management Director - Consortium Mexi-Gas, 4 April 2005, Mexico.

¹¹⁰ European Investment Bank – Latin American Division, answer to the “EIB Questionnaire”, specific response on the “Mexi-Gas” Project / Interview with Nicolas Vergés, Finance and Management Director – Consortium Mexi-gas, Julio Camacho Viguera, Finance and Risk Management, Consortium Mexi-Gas and Francisco de Paula Coelho, Director for Asia and Latin America – EIB, 4 April 2005, Mexico.

¹¹¹ *La Jornada* - National newspaper / Carlos Fernández-Vega. “Invita Fox a invertir en energía, sector con “potencial ilimitado””, 11 February 2005.

permit¹¹². Nevertheless, according to information from Mexigas, the Consortium currently operates a network of 1,424 km, with a total of 130,000 clients¹¹³ representing only 35 % of the population goal initially forecasted. The Network is installed in only eight of the 28 municipalities forming part of the Geographic Area of the Valley of Cuautitlán-Texcoco¹¹⁴. Therefore at present, the real coverage of the gas distribution network remains very low. The Mexi-Gas project has not resulted in natural gas substituting the consumption of other fossil fuels, in particular LP gas traditionally used by the population in that area. Finally, the environmental objective of the project that foresaw a reduction in contaminant gas emissions and therefore a lower level of contamination in the air of the Valley of Cuautitlán-Texcoco, has not been achieved.

With respect to the applicable tariffs concerning domestic use, during the first three years of operation of the network, the Consortium Mexi-Gas had to maintain a fixed price of 1.08 dollars per gigacalories agreed in the tender. This obligation ended in 2004 and since then the Consortium, in an agreement with the Energy Regulation Commission, fixed the price of the service. For the moment, this tariff remains below those applicable to the supply of LP gas (even though the latter is subsidized by the government); however, a review of the invoices of a user of the Network reveals that between the months of October 2002 and February 2005, the tariff increased in a continuous manner. The cost of the service rose from 171.53 pesos to 252.34 pesos per gigacalorie; that is, a 47% rate of increase. The continuous rise in tariffs is an explicit aim of the project, as expressed by the promoter himself¹¹⁵. This contributes to an increase in the profits of the company to the detriment of the economic accessibility of the service, primarily for lower income households. The Mexigas promoter confirmed having obtained a net positive benefit for 2004 “due to the implementation of new tariffs approved by the regulator under which the Consortium operates”¹¹⁶.

The “Mexigas” project has also not facilitated equal access to natural gas for all the population in the area. None of the “micro regions with high or very high marginalisation” registered with the Ministry of Social Development (Secretaría de Desarrollo Social)¹¹⁷ have this service. The distributor Mexi-Gas does not seem interested in extending its activities to areas where the population has low income levels. On the contrary, medium income level residential areas, which can finance the cost of this service, are prioritised. Access to the network implies an initial investment by the user of about 2,000 pesos (about 140 euros), which many families are unable to cover. By placing it in the hands of private operators, the gas service has lost its vocation of public service. The extension and operation of the natural gas distribution network is based on the criteria of economic profitability, favouring access to this recently privatized service to users with sufficient capacity to pay for it, and not from the perspective of the fulfilment of the basic energy needs of the population.

¹¹² Energy Regulation Commission. “Licitación Pública Internacional para otorgar permisos de distribución de gas natural en el Distrito Federal y el Valle de Cuautitlán-Texcoco. *Op.Cit.*

¹¹³ Nicolas Vergés, Finance and Management Director - Consortium Mexi-Gas, answer to the “Questionnaire Mexi-Gas”, question 1.

¹¹⁴ The Network operates in the municipalities of Coacalco, Cuautitlán, Cuautitlan Izcalli, Ecatepec, Naucalpan, Tecámac, Tlanepantla de Baz and Tultitlán. Information consulted on the webpage of Maxigas, www.maxigasnatural.com.mx.

¹¹⁵ Interview with Nicolas Vergés, Finance and Management Director - Consortium Mexi-Gas, 4 April 2005, Mexico.

¹¹⁶ Nicolas Vergés, Finance and Management Director - Consortium Mexi-Gas, answer to the “Questionnaire Consorcio Mexi-Gas”, question 1.

¹¹⁷ Ministry of Social Development webpage (Secretaría de Desarrollo Social): www.sedesol.gob.mx.

* * *

After 7 years of operation, the Mexi-gas network maintains a very low level of coverage and has not had a relevant impact with respect to an improvement in the quality of life of the population in the area. The project has not offered a true alternative to the use of fossil fuels with high levels of contaminant gas emissions, nor an improvement in the quality of the air in this area with a high population density. Similarly, it has not facilitated access to natural gas, a cheaper and cleaner energy resource for the poorest sectors of the population.

Access to Information

The promoter of the Mexi-gas project stated that an “Acceptability Study” was carried out prior to the implementation of the project¹¹⁸. Nevertheless, the results of the survey of users of the network in the municipalities of Ecatepec and Cuautitlán Izcalli show that more than half of the users that have recently connected to the network (67 out of a total of 85 polled), “were not consulted nor received information prior to the construction” (42 out of a total of 67)¹¹⁹.

The EIB declared that the procedures for access to information and public consultation with respect to the Mexi-gas project meet the requirements of Mexican environmental regulations¹²⁰. However, Mexican law does not contemplate wide and inclusive public consultations for projects. This only occurs if it is requested by a person, in writing and within a short time period, to the SEMARNAT¹²¹. In the event that the Ministry decides to carry out a public consultation, it requests the promoter to publish an announcement of the construction or activity in a newspaper with wide circulation in the Federation in order that interested persons can send their observations and proposals in writing¹²². However, the European legal framework contains the obligation to consult the public affected or susceptible to be affected by the plan or program considered, as well as any person interested in the process, including corresponding non-governmental organizations, such as those which promote the protection of the environment and other interested organizations¹²³. In addition, the consultation process must “contemplate in advance the real possibility of expression, within adequate time frames, their opinion of the proposal of the plan or programme and on the environmental report, before the adoption or processing of the plan or programme by legislative procedure”¹²⁴. With respect to the procedures for carrying out the public consultations, Mexican law clearly falls behind European norms, which aim to assure that this process is truly inclusive and offers a real alternative to a wide public to express its opinion with respect to a project and the environmental impact evaluation.

¹¹⁸ Interview with Nicolas Vergés, Finance and Management Director - Consortium Mexi-Gas, 4 April 2005, Mexico.

¹¹⁹ “Survey on Natural Gas Network Service” given to users of the Mexi-Gas Network in the Valley of Cuautitlán-Texcoco, question 2.

¹²⁰ EIB - Latin American Division, response to the “EIB Questionnaire”, specific response on the “Mexi-Gas” project.

¹²¹ “Regulation to the General Law for Ecological Equilibrium and Protection of the Environment”. *Op. cit.*, article 40.

¹²² *Ibid.*, article 41, I and II.

¹²³ European Parliament and European Council. Directive 2001/42/CE of the European Parliament and the Council of June 27, 2001 relating to the evaluation of the effect of determined plans and programmes on the environment, Official Gazette of the European Communities, July 21, 2001, article 5, section 4.

¹²⁴ European Parliament and European Council. Directive 2001/42/CE of the European Parliament and Council of June 27, 2001 *Op. cit.*, article 5, section 2.

With respect to the information on the “Mexi-Gas” project financed by the EIB, in the investigation commissioned by the European Parliament, the Italian organization Campagna per la RBM requested access to the project documents from the EIB (the Project, the Environmental Impact Assessment, Interim and Final evaluations, etc.)¹²⁵. The Latin American Division of the EIB responded that it was unable to provide these documents without the agreement of the borrower because « the documents presented by promoters and borrowers, including those relating to the evaluation process, are protected by a confidentiality agreement on behalf of the EIB”¹²⁶. However, the EIB clarified that it “had no objection to promoters and borrowers revealing such information”. At first the promoter of the project stated that he could not give public access to either the activity reports or documents relating to the project¹²⁷. In a later interview, the promoter agreed that the EIB provide such documents¹²⁸; however, to date, this information has not yet been disclosed.

¹²⁵ Electronic mail from the organization CRBM to the Latin American Division of the EIB, dated on 25 January 2005.

¹²⁶ Electronic mail from the Latin American Division of the EIB to CRBM, dated on 11 February 2005.

¹²⁷ Nicolas Vergés, Finance and Management Director - Consortium Mexi-Gas, response to the “Questionnaire Mexi-Gas”.

¹²⁸ Interview with Nicolas Vergés, Finance and Management Director - Consortium Mexi-Gas, 4 April 2005, Mexico.

II. EIB Loan for the “Volkswagen México” Project

1. Background

“Volkswagen de México”, a Mexican subsidiary company of the German group, opened its plant in the State of Puebla in 1967. At present, the plant produces the “New Beetle”, “Golf convertible” and “Jetta” models. Its productivity level is one of the highest in the world, with a daily production of 1,500 vehicles, based on an open subcontracting system with local suppliers¹²⁹. In 2003, 20% of its production was destined for the internal market, the rest for export: Sixty six percent of its production was exported to the United States and Canada, 12% to Europe and 1% to South America¹³⁰. It currently employs about 13,500 workers and generates more than 50,000 indirect jobs through its subcontracting activities with local suppliers¹³¹.

In 2004, the company “Volkswagen de México” applied for a loan from the EIB for 70 million Euros to contribute to financing an investment for the construction of new production facilities in the plant located in the state of Puebla. The funds have not been disbursed since the new “Framework Agreement for Financial Cooperation between the United Mexican States and the European Investment Bank”¹³², signed in November 2003, is not yet in effect, since it has not been ratified by the Senate of the Republic. As a result, Volkswagen Mexico approached the Delegation of the European Commission in Mexico to solicit more information in this regard¹³³.

2. Analysis of the “Volkswagen México” Project in its various phases: Environmental Impact Evaluation¹³⁴

The “Volkswagen México” Project promotes an activity that “requires environmental impact authorization” by SEMARNAT, the Mexican authority responsible for evaluating the corresponding projects with respect to the provisions in the Regulations on Environmental Impact (Reglamento sobre Impacto Ambiental)¹³⁵. The EIB stated that the promoter independently prepared an “Environmental Impact Assessment (EIA)” and that SEMARNAT gave its approval¹³⁶. Furthermore, the Bank reported that the plant in Puebla was certified under international standard ISO 14000 with respect to the Environmental

¹²⁹ Paul Hampton. Mexico Briefing: car workers'union organisation, Puebla, Sept. 2003.

¹³⁰ European Investment Bank. “Mexique: la BEI prête 70 millions d'Euros à Volkswagen Mexique”. Communiqué de Presse, Réf. 2004-093, 08/10/2004.

¹³¹ European Investment Bank – Latin American Division, response to the “EIB Questionnaire”, question 5.

¹³² “Framework Agreement for Financial Cooperation between”, *Op. cit.*

¹³³ Interview with Claudia Berlanga, Economic Advisor - European Commission Delegation in Mexico, 23 March 2005, Mexico.

¹³⁴ The consultant did not have access to the documents relating to the “Volkswagen México” project (Project documents, Environmental impact evaluations, and other documents). The information presented in this section derives from responses from the European Investment Bank – Latin American Division to the questionnaire “EIB Questionnaire”, as well as from other EIB documents consulted on their webpage, www.eib.org.

¹³⁵ “Regulation to the General Law for Ecological Equilibrium and Protection of the Environment”. *Op. cit.*, chapter II.

¹³⁶ European Investment Bank – Latin American Division, response to the “EIB Questionnaire”, question 5.

Management System, thereby showing the group's commitment to the protection of the environment¹³⁷. However, as in the case of other projects, the Bank did not fulfil its commitment¹³⁸ to show that the impact of this project on the environment has been effectively evaluated in light of the principles and standards of the European Union, with a special emphasis on Directive 97/11/EC on environmental impact.

3. The "Volkswagen México" project: Impacts on development and access to information

Economic, environmental and social impacts

With the loan to "Volkswagen México", the EIB bets on the strengthening of a group established in Mexico almost 40 years ago. According to statements from the Bank¹³⁹, the extension of the plant in Puebla would allow the production of bodywork and assembly of the "Jetta A5" model, 80% of the production of which was expected to be exported to the United States and Canada. The Bank also stated that "the investment would cover the installation of a production line for a new vehicle motor: "the new R5" with low gas contaminant emission levels (New R5 Super Ultra Low Vehicle Emission) which would allow Volkswagen Group to meet US gas emission standards"¹⁴⁰. In this way, the EIB loan seeks to consolidate the production of Volkswagen Group in Mexico and reinforce its position in the North American Free Trade Zone. Far from supporting trade relations with the European Union and Mexico and the participation of Mexican companies, as set forth in the "Global Agreement", this project privileges the activities of a European group and its trade activities with North America.

As stated in the first part of this report, the EIB assured that the "Volkswagen" project would allow for job creation: 1,600 direct jobs in the Puebla plant, as well as a substantial raise in indirect jobs¹⁴¹. However, new sources of work in the Volkswagen plant, far from generating a surplus of jobs, will cover losses accumulated by the company with the closing of the "Beetle" production line in 2003 and the drop in sales of other models¹⁴². Finally, the project will have little impact on the total level of employment in the company. Furthermore, even if the project has positive repercussions on the total level of employment in the region due to the fact that a considerable part of Volkswagen's production is subcontracted to local companies, it is estimated that in general these suppliers pay their largely non unionized workers 40 to 50% less than Volkswagen¹⁴³. The indirect jobs generated by the project are characterized by their precarious nature, violating labour rights enshrined in article 123 of the Mexican Constitution as well as in international labour treaties and conventions.

¹³⁷ *Ibid.*

¹³⁸ European Commission. "Working procedures between the EIB and the Commission services (DG ENV and DG ECFIN)", *Op.Cit.*

¹³⁹ European Investment Bank – Latin American Division, response to the questionnaire "EIB Questionnaire", question 5.

¹⁴⁰ European Investment Bank. "Mexique: la BEI prête 70 millions d'Euros à Volkswagen Mexique". *Op. cit.*

¹⁴¹ European Investment Bank – Latin American Division, response to the questionnaire "EIB Questionnaire", question 5.

¹⁴² In July 2003, Volkswagen México announced 2,000 lay-offs. Paul Hampton. Mexico Briefing: car workers'union organisation, Puebla, Sept. 2003.

¹⁴³ *Ibid.*

The European Investment Bank has guidelines relating to “The Social Assessment of projects in developing countries”¹⁴⁴ in which labour issues are included – such as the abolition of forced labour, the elimination of harmful child labour, the freedom of association and the right to organize and bargain collectively and equality of opportunity and treatment –constituting an area of competence of the Bank. However, the EIB makes no reference to the “Social assessment” in the Volkswagen project, a process which would have been of particular interest in this case since in the last few years the company’s management has been accused and confronted on repeated occasions by the Independent Workers Union of the Volkswagen Automobile Industry (Sindicato Independiente de Trabajadores de la Industria Automotriz de Volkswagen, SITIAVW) due to the implementation of a regressive and anti unionist labour policy.

On 18 August 2000¹⁴⁵, faced with the impossibility of reaching a pre-strike agreement¹⁴⁶ and exercising their rights, SITIAVW began a strike for a wage increase. During the rounds of negotiations, the company was accused of attempting to pressure union representatives not to consult the workers. By pointing out its disagreement with the consultation method, the company tried to interfere in the internal workings of the union, thereby threatening the right to union freedom.¹⁴⁷ Again on 18 August 2001, the workers began a strike which lasted 18 days. In July 2003, in order to avoid the announced lay-offs by the company, an agreement was reached with the workers to reduce the labour week from 5 to 4 days and to increase wages by 5.25%¹⁴⁸. However, as stated by an independent expert, this “does not compensate for the loss caused by the reduction in the time worked”¹⁴⁹.

¹⁴⁴ European Investment Bank. “The Social Assessment of Projects in Developing Countries: the approach of the European Investment Bank”. EIB-Projects Directorate-Environmental Unit/28 July 2004.

¹⁴⁵ The information on the labour conflict and the strike which occurred in 2000 derives from the following sources: Centre for Reflection and Action on Labour Issues (Centro de Reflexión y Acción Laboral - CEREAL). “Informe de violaciones a los derechos humanos laborales en México durante el año 2000”, CEREAL, México, 2000 / CEREAL. “Informe de violaciones a los derechos humanos laborales en México durante el año 2001”, CEREAL, México, 2001. / Centro de Reflexión y Acción Laboral (CEREAL), “Informe sobre la situación del derecho a la libertad sindical en México”, with the collaboration of the co-petitioners Alianza Nacional Democrática de Trabajadores Petroleros, A.C. (ANDTP), Coordinadora Nacional de Electricistas (CNE), Frente Auténtico del Trabajo (FAT), Red de Abogados Laboralistas (RAL), Centro de Derechos Humanos Miguel Agustín Pro Juárez (PRODH) y Centro por la Justicia y el Derecho Internacional (CEJIL); as well as the collaboration of the Centro de Apoyo al Trabajador (CAT), and the Corporativo de Estudios y Asesoría Jurídica, A.C., presented in the thematic Hearing in the 119th ordinary period of sessions in the Interamerican Commission on Human Rights, on 3 March 2004.

¹⁴⁶ The company offered a salary increase of 7%, on the argument that a higher increase would put programmed investments at risk. The union, which initially requested an increase of 35%, reduced its demand to 10% in conformity with the increases authorized by other companies in the same industry.

¹⁴⁷ These attempts did not provide results, and it was by consultation that the workers gave their vote of confidence to the union representatives to negotiate the end of the strike for August 18th. Finally, the union representatives obtained a direct increase of 10.2 %, 3.5% in food vouchers, and 1% in asistans for school necessities 1%, as well as the payment of 50% of lost salaries, and the strike was lifted without any conflict with the workers.

¹⁴⁸ Paul Hampton. Mexico Briefing: car workers'union organisation, Puebla, Sept. 2003

¹⁴⁹ *Ibid.*

Access to information

In the framework of the investigation commissioned by the European Parliament, the Latin American Division of the EIB was asked to provide documents related to the « Volkswagen México» project (Project documents, Environmental impact evaluations, etc.)¹⁵⁰. In response, the EIB mentioned that it could not reveal such information due to the fact that the project disbursement had not yet been made¹⁵¹. However, in our opinion, since the Bank has approved the project, the documentation concerning the environmental impact assessment as well as the project itself (including an evaluation of its impact on development) should be revealed.

¹⁵⁰ Electronic mail from CRBM to the Latin American Division of the EIB, dated on 25 January 2005.

¹⁵¹ Electronic mail from the Latin American Division of the EIB to CRBM, dated on 11 February 2005. This information was confirmed by telephonic communication with Enrique Leo Sánchez, who is in charge of the relationship with the Bank, from the Treasury Department of Volkswagen de México, S.A. de C.V.

Final Conclusions

In the reference texts (ALA Mandate, “Global Agreement” and Agreement on Financial Cooperation), the EIB mandate to operate in the ALA region and in Mexico is ambiguous, since the criteria of *mutual interest* is not clearly defined. Even if some experts argue that *mutual interest* includes the carrying out of the objectives of the external policies of the European Union, and in particular, in the strengthening of social and economic development of the country, and that the Latin American Division of the Bank states that it “takes into account the European Union Cooperation Priorities to target their lending activities”¹⁵², the analysis of the EIB activities in Mexico in the last 10 years demonstrates a different reality:

- The EIB has privileged large credit lines (about 52 million Euros) over smaller ones, thus preventing greater diversification of its operations. The loans are concentrated in two sectors: industry (65%) and energy (35%). Other spheres of cooperation which are prioritized by the European Union are not represented, such as the agricultural sector, the transport sector, the tourism sector, as well as other branches of the industrial sector; nor has the EIB financed projects focused on the development of renewable energy, despite the recommendations of the European Union with respect to this issue.
- All the beneficiaries of the EIB loans belong to the private sector and within this sector they are exclusively subsidiary companies of European corporations or mixed European/Mexican companies with a minimal participation of Mexican capital. “Global loans” or other mechanisms for technical assistance to finance SME’s have not been contemplated, despite the fact that these companies are considered a priority for cooperation by the European Union. The Bank has also not authorized financial assistance to public entities, regions or municipalities, particularly in the poorest areas, despite its mandates to do so.

In addition, this study shows that the real impact on environmental protection and social development of the Mexican projects financed by the EIB has been minimal:

- Of the 4 projects financed by the EIB in Mexico, the “Mexi-Gas” Project is the only one that has an environmental component; that is, the promotion of natural gas as a source of “cleaner energy”. However, up until now the real coverage of the network has been very limited, as well as its impact on the improvement in air quality. Furthermore, this project promotes the use and the intensive exploitation of an energy source which, although not as contaminating in absolute terms in comparison with other traditional fossil fuels, is nevertheless a non-renewable natural resource and therefore not sustainable in the medium and long term.
- The EIB is not duly assuming its commitment to carry out an Environmental Impact Evaluation for each project based on the guidelines, principles and standards

¹⁵² European Investment Bank – Latin American Division, response to questionnaire “EIB Questionnaire”, question 10.

contained in the European Union environmental norms and policy, in particular Directive 97/11/EC.

- The EIB has not prioritized projects with a strong social component, which promote the generation of jobs that respect labour rights and access to basic services. Furthermore, it has not directed its loans towards the poorest sectors nor areas with high poverty levels, such as the States in the south-east of the country. The European Union Cooperation Objectives for the reduction of poverty and inequalities in Mexico have not been assumed as a strategic priority for the EIB.
- Finally, the lack of consideration of gender issues in the policy and operations of the EIB, despite the fact that it is a guiding principle in the cooperation policy of the European Union, is of concern.

The EIB has prioritised the financing of projects with the purpose of benefiting the European economy and large European companies. EIB operations are exclusively directed towards sectors which are already consolidated and characterized as being low risk, as well as towards beneficiaries who have the capacity to generate and capture other sources of financing. While, EIB loans have the guarantee of the general budget of the European Community, the Bank has not favoured the financing of higher risk operations. This backup has not been taken advantage of to support either Mexican SME's or the activities of risk capital in general. The strategy adopted by the EIB tends to reproduce a practice which the European Commission itself criticizes in the Strategic Report: that "The economic policies followed by Mexico since 1988 have brought greater benefits to major companies, both national and foreign, while small companies have faced significant limitations due to the slow growth of the domestic market"¹⁵³.

Finally, this analysis demonstrates that the EIB considers the European Union and the European Commission objectives for Mexico with respect to cooperation for development to direct its financing operations, to be optional, rather than imperative. The characteristics and orientation of the loans as well as their environmental, social and economic impact testify to the lack of coherence with and appropriateness of the principles and priorities of the European Union external policy, as set forth in diverse bi-national documents and agreements (ALA Mandate, Global Agreement, National Strategic Paper, etc.). In particular, the needs of the poorest and most vulnerable sectors of society, the promotion of local and national economies based on participative and inclusive processes, respect for human rights and respect of European Union environmental norms, have not been considered. The principle of *mutual interest* has been interpreted by the EIB as the strengthening of activities of European corporations in Mexico, while the needs of the country with respect to economic, social and environmental development have received little attention. Rather than serve the interest of Mexico and the European Union, the EIB loans have favoured the economic interests of a small group of European companies.

¹⁵³ European Commission. Country Strategy Paper, *Op.cit.*, section 3.2.2.

Appendix 1: Recommendations¹⁵⁴

With regard to the Council Mandate for ALA countries

- The European Parliament should request to the European Council to revise the mandate for ALA in order to include a better definition of the principle of mutual interest in line with the need for local economic and sustainable development as codified in the EU external policies objectives for the country. In particular the Council should ensure that the definition of a development mandate is prioritized for EIB lending to ALA countries and also that criteria to evaluate fulfilment of the “Community’s relevant external policy objectives” (Council decision 2000/24/EC) is better defined.

With regard to the Financial Cooperation Agreement between Mexico and the EIB:

- The Financial Cooperation Agreement should make explicit reference to the entity of Section VI, entitled “Cooperation”, in the “Agreement on Economic Partnership, Political Co-ordination and Cooperation between the United States of Mexico and the European Commission” and not only to Article 44 as currently written. Furthermore, Article 1 entitled “Objective”, should be expanded to require that loans comply with the policies of the European Union in the area of cooperation, and more specifically in the realization of programs and projects agreed upon by Mexico and the EU under Title VI of the Global Agreement.

With regard to the participation of the European Commission and European Parliament in the supervision of EIB loan activities:

- Considering that the EIB loans for projects in Mexico are guaranteed by the general budget of the EU; bearing in mind that 210.2 million Euros have been loaned since 1993; bearing in mind that loan activity to date has not been squarely oriented in accord with the long term cooperation objectives prioritised by the “Agreement on Economic Partnership, Political Co-ordination and Cooperation” or the Country Strategy Paper of the European Commission; it is recommended that the European Commission and European Parliament exercise more control over the activities of the EIB in Mexico.
- In addition, the Commission while issuing its opinion under Art. 21 of the EIB statute should make specific reference to the fulfilment of development cooperation policies codified in the corresponding strategic documents guiding EU objectives in Mexico.
- The Commission should also be responsible of transmitting to the EU Parliament all information regarding the use of the guarantee for the EIB financed project in Mexico, including disaggregated data on the using of the commercial guarantee.

¹⁵⁴ An Extensive summary of these recommendations has been included in the study: European Parliament. External Study on “The development Impact of European Investment Bank (BEI) Lending operations in the Cotonou and ALA Framework”, *Op. cit.*

With regard to the relationship between the EIB and the Delegation of the European Commission in Mexico:

- The EIB should have a strategic document for Mexico operations, elaborated in conjunction with the Delegation of the European Commission in Mexico, defining strategies to support the objectives in the area of development cooperation established in agreements between the EU and Mexico. The document should reiterate the EIB commitment to support EU policies in the area of development and specify sectors, beneficiaries, and types of projects to be prioritised for loans.
- As the institution responsible for implementing the policies and programs of the European Commission in Mexico, the Delegation should play an active role¹⁵⁵ in the approval, supervision, and evaluation of EIB activities in country. The EIB should involve and/or consult the Delegation in all phases of project development. In the approval process, the Delegation should be able to express their opinion about the project and its fit with EU cooperation policies and objectives. The Delegation should also play a role in supervising projects during the implementation phase and ensuring transparency in ongoing monitoring of the European Parliament. Finally, in the evaluation phase, the Delegation should play a role in evaluating the impact of the project in terms of development indicators

Regarding the orientation of EIB operations in Mexico:

The EIB has impressive financial resources that should further the pursuit of objectives in the area of cooperation defined by the EU and Mexico, in the Global Agreement and Country Strategy Report of the European Commission. It is especially recommended that:

- The EIB should operate in accord with the Delegation of the European Commission, complementing the technical support programs the Delegation administers in country and targeting small and medium enterprises for loans, with favourable lending conditions, especially for activities in the agricultural, and fishing sectors.
- It is also recommended that mechanisms be created to facilitate communication between the EIB and the Mexican business community, particularly small and medium enterprises with the aim of detecting and exploiting sectors of Mexican commercial interest and intensifying investment.
- The EIB should designate large credit lines for investment projects that promote development in the poorest and most vulnerable communities, previous real consultation with them, particularly in the south-eastern states (the states of Chiapas, Oaxaca and Guerrero). The EIB should orient individual loans towards projects that “*generate employment and ensure improved quality of life for the most disadvantaged population.*”¹⁵⁶ The EIB should also open a line of credit specifically for government authorities at the federal, state and local levels, concentrating on the poorest municipalities of the country. Accordingly with the development priorities of the European Union, this credit line should be oriented toward programs that “*support productive projects, creating zones of sustainable development that achieve environmentally sustainable economic development and increasing access to quality sanitation and education services.*”¹⁵⁷

¹⁵⁵ During the interview with Claudia Berlanga, Economic Advisor - European Commission Delegation in Mexico, 23 March 2005, it was stressed the need of coordination between the EIB and this Delegation.

¹⁵⁶ “Agreement on Economic Partnership, Political Co-ordination and Cooperation”. *Op.cit.*, Title VI, article 36.

¹⁵⁷ European Commission. Country Strategy Paper, *Op. Cit.* Section 6.2.1.

- With respect to the energy sector, it is recommended that the EIB develop a comprehensive policy in the area of cooperation, in particular financing projects oriented toward the promotion of renewable energy sources, such as sun and wind power, particularly in rural areas where the poorest populations are located.
- With respect to environmental protection, the EIB should assume in its operations the same goal established within the European Union¹⁵⁸: assure that one-fourth to one-third of the total sum of individual loans be dedicated to projects focusing on environmental protection and the protection of natural resources.
- With respect to the renewable energy sector, the EIB should establish in Mexico the same commitments that it established globally: assure that by 2007 15% of the energy portfolio for the country will go to funding of renewable energy and 50% by 2010¹⁵⁹.

Regarding the environmental impact assessment:

- It is recommended that the operating procedures agreed upon between the EIB and the Commission be respected, particularly that: “outside of the European Union and candidate countries, the environmental evaluation of the EIB should be conducted in consideration of local guidelines, taking into account as directives the principles and standards contained within environmental law and policies in the EU.”¹⁶⁰ The presentation of an environmental assessment (or “Manifestación Ambiental”), as required by Mexican authorities does not exempt the EIB from the EU mandate because Mexican law standards in this matter are lower than European ones.
- In all cases, the EIB should ensure that financed projects comply with the environmental legislation and policies of the EU. Even if there was already one realized by the Mexican authorities accordingly to Mexican law, an Environmental Impact Assessment should be carried out within the EU environmental laws, standards and principles.

Regarding the “Volkswagen” project:

- The EIB should be committed to more carefully examine compliance with national and international labour laws, particularly the standards of the International Labour Organization (ILO), on the part of the Company they finance, as well as their subcontractors. This imperative should be a condition for loan qualification. During the loan approval process, applicants should prove their full compliance with national, European and international labour law.

Regarding the “Mexi-Gas” project:

- Bearing in mind that the private service of natural gas is distributing a natural resource owned by the Nation, the EIB should request the promoter (“Mexi-Gas”) to favour equal accessibility to this public natural resource in order to make its operations have a real impact on the development of the zone.

¹⁵⁸ European Investment Bank. Corporate Plan (2002-2006).

¹⁵⁹ European Investment Bank. “EIB’s Challenging new renewable energy action plan”, Press Release, 2004-053-EN, Luxembourg/Bonn 4 June 2004 / European Investment Bank . EIB and Renewable, July 2002.

¹⁶⁰ Working procedures between the EIB and the Commission services (DG ENV and DG ECFIN), Op. cit, paragraph 2.1.1.

- With the aim of improving the quality of the service of natural gas supplying, the EIB should verify that the promoter (“Mexi-Gas”) supervises on a regular basis the gas pipelines to reduce to the minimum the risk of leak and to prevent accidents and carry out periodic evaluations of the service considering users’ opinion.

Regarding Access to Information:

- The EIB should assure a broad dissemination of the environmental impact assessment in order to appropriately inform and consult the population.
- During all phases of the projects (approval, supervision, and evaluation) the EIB should promote specific mechanisms, in accordance with EU consultation criteria given in EU policies and guidelines, to consult the target population in order to assure a participatory development.
- To assure the transparency and accountability of the EIB projects, the Bank should facilitate public access to all documents that were considered and studied for decision making regarding all phases of the projects.

Appendix 2

List of interviews, questionnaires and surveys

Interview with Nicolas Vergés, Finance and Management Director - Consortium Mexi-Gas; Julio Camacho Viguera, Finance and Management of Risks - Consortium Mexi-Gas; and Francisco de Paula Coelho Director of Asia and Latin America - European Investment Bank, 4 April 2005, Mexico.

Interview with Claudia Berlanga, Economic Advisor - European Commission Delegation in Mexico, 23 March 2005.

Interview with Tania Mijares, Mexican Centre for Environmental Rights (Centro Mexicano de Derecho Ambiental - CEMDA), 22 March 2005, Mexico.

Communication with Enrique Leo Sánchez, Responsible of EIB Relation - Volkswagen de Mexico, March 2005.

Communication with Guy Rolli, Delegate for Mexico, Venezuela y Colombia – Saint-Gobain Group, March 2005.

Communication with European Investment Bank - Latin American Division, February and March 2005.

« EIB Questionnaire » answered by European Investment Bank - Latin American Division.

« Questionnaire Mexi-Gas », answered by Nicolas Vergés, Finance and Management Director - Consortium Mexi-Gas.

“Survey on Natural Gas Network Service” given to 85 users of the Mexi-Gas Network in the Valley of Cuatitlán-Texcoco.

Appendix 3

Questionnaire to the European Investment Bank “EIB questionnaire”

Questionnaire

European Investment Bank

This questionnaire is part of a Mexican Case Study about EIB Activities in Mexico which itself belongs to the report “The Development Impact of the European Investment Bank (EIB) Lending Operations in the Cotonou and ALA Framework” which has been commissioned by the European Parliament to Campagna per la Riforma della Banca Mondiale / CRBM / Italia and WEED / Germany.

ID Questions

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General overview of the EIB lending activities in Mexico

1° Who were the recipients of EIB Loans in Mexico in the last 10 years?

Vidrio Saint-Gobain de Mexico S.A., under ALA interim mandate in 1997,
Consortio Mexigas, under ALA II in 1999/2000
Saint-Gobain Vetrotex America S.A. de C.V., under ALA III in 2001
Volkswagen de Mexico S.A. de C.V, under ALA III in 2004

2° How many of the recipients are state-owned / How many are private enterprises?

All 100% private.

3° Please precise the following information for each EIB loans:

The EIB Loans in Mexico					
EIB Loans	1	2	3	4	5
Complete Recipient Name	Vidrio Saint-Gobain de Mexico S.A	Consortio Mexigas S.A.	Saint-Gobain Vetrotex America S.A. de C.V.	Volkswagen de Mexico S.A. de C.V.	

Activity Sector	Fibre Glass industry	Gas	Fibre Glass industry	Car production	
Type of Company: -Private/Public -Proportion of Mexican, and/or European Capital	Private 80% French Saint Gobain, 20% Mexican	Private 100% French Gaz de France	Private 80% French Saint Gobain, 20% Mexican	Private 100% German Volkswagen AG	
Name and Short Description of the financed project	Vidrio Saint-Gobain de Mexico Project Financing of a new flat glass factory about 70km south of México D.F.	Mexi-Gas Project Construction and operation of natural gas distribution grids in the Mexico City urban region	Vetrotex America Project Construction of glass fibre factory near Puebla, Mexico	Volkswagen Mexico Project Implementation of new production facilities for automobiles and engines in Puebla, Mexico	
Final beneficiaries of EIB loans	Vidrio Sain-Gobain de Mexico S.A.	Consorcio Mexi-Gas S.A.	Saint-Gobain Vetrotex America S.A. de C.V.	Volkswagen de Mexico S.A. de C.V.	
Signature date of the EIB loans	12.05.1997	20.12.1999/ 22.06.2000	24.01.2001	07.10.2004	
Type of loans	Fixed/Variable rates Tenor 10 (2)	Fixed/Variable rates Tenor 20 (5)	Fixed/Variable rates Tenor 10 (2)	Fixed/Variable rates Tenor 5 (2)	
Total Amount	EUR 50m	USD 73m	EUR 15.9m	EUR 70m	
Status of disbursement	Fully disbursed	Fully disbursed	Reimbursed	Undisbursed	
% of the total cost of the project	41%	22.7%	27%	9%	
Origin of others funds	Equity	Equity; Commercial Banks	Equity	Equity; KfW; local bonds	

4° Which firms having access to EIB Loans have their headquarters in an EU member state?

All European Union companies can have access to EIB loans in ALA.

5° Please precise the goals in terms of economic, environmental and social development of each financed project.

Vidrio Saint-Gobain:

The project led to more competition in the Mexican flat glass market as well as to a reduction of flat glass prices. This competitive price, which is also linked to the opening up of the Mexican flat glass market (under NAFTA and other bilateral agreements), had positive effects on the economic development of Mexico. The project contributed to meeting flat glass demand in Mexico and to modernizing the Mexican glass transformation sector by developing activities with more value added. In total, the project has led to the creation of 263 new permanent jobs, which also led to an increase of the overall income of the region.

An EIA, required by Mexican legislation, was performed by an independent consultant, and its conclusions were approved by the competent authorities. Since the signature of the NAFTA treaty, Mexico is adopting very strict norms for contamination levels and making them immediately applicable for new installations. Dust emissions of the furnace are limited to 120mg/Nm³. The plant is located in an industrial park, and distant from important human settlements. SGB has been applying its worldwide standards for the exploitation of the plant.

Mexi-Gas Project:

The economic analysis of the project was based on a comparison of the discounted cost of natural gas supplied by the Mexi-Gas distribution network to the economic value of the various fossil fuels replaced, resulting in a rather high economic profitability. This is a result of the large number of industrial consumers in the region and the comparatively high price of alternative fuels. Furthermore, the project contributed to rationalize and diversify Mexico's energy supply, reduce air pollution by displacing other fossil fuels, and improved the safety of gas consumption, particularly in the domestic sector where the use of bottled LPG is widespread. The project led to an increase of staff from 123 to approximately 300 permanent people in 2004, excluding temporary and variable employment for technical services and construction (approx. 20,000 man-months), leading to a general increase of the region's income.

An environmental study has been conducted and results have been approved by the various federal authorities and local municipalities. The potential impacts on the environment are considered temporary or negligible mainly due to the urban character of the project area. The approval from the *Istituto Nacional de Ecología, Dirección General de Ordenamiento Ecológico e Impacto Ambiental* accepted and specified the norms and measures suggested for the construction and operation of the grid.

Vetrotex America Project:

The project led to the creation of approximately 165 new direct jobs. Further benefits from employment resulted in related activities such as transport and provision of site maintenance, benefiting also the local population. Furthermore, subcontracted maintenance provided additional 50 jobs in local suppliers. In addition, the wider "multiplier" effect on the local economy as a whole is worth mentioning.

The Mexican Government had requested an EIA, which has been prepared by an independent consultant. To mitigate local environmental pollution, water treatment plans and furnace exhaust filters were installed. The plant has no abnormal noise levels during operation, it is located on an industrial estate and well away from the nearest residential area. In general, the industry produces little waste and all reject products are be recycled. Any fibre that cannot be recycled is sold to the local road construction industry.

Volkswagen Mexico Project:

Volkswagen de Mexico has some 13,500 employees, and approximately 50,000 jobs at Mexican suppliers depend on its activities. The envisaged project will secure some 1,600 direct jobs at the

Puebla plant, as well as a substantial number of indirect, local jobs, as an appreciable percentage of components value is sourced in Mexico. According to present projections, nearly 80% of the new Jetta A5 production will be exported to the USA and Canada, generating an estimated USD 3bn per year in export revenues, contributing USD 2bn to the trade balance and USD 750m to domestic production.

In Mexico, projects in this sector have to be presented to SEMARNAT, the environmental authority that decides upon the depths of evaluation of the project according to guidelines laid down in the "Reglamento de la LGEEPA en Materia de Impacto Ambiental". For this particular project, the promoter had prepared a detailed EIS (Environmental Impact Study), which led to an approval of the project. Independently (and often in excess) of the national environmental regulations, VW applies European and German environmental standards to all its industrial operations. For this reason, all Group plants would be acceptable in any EU member states, and this, obviously, applies to the Puebla plant as well. Furthermore, the Puebla plant is certificated under the ISO 14000 Environmental Management System (EMS) standard. The EMS at the company includes a specific procedure, which has anchored the evaluation of the environmental impact of any new project with mitigation proposals already in the feasibility study.

Has the EIB priority sectors in Mexico? **NO**

What are the general guidelines which oriented the EIB lending activities in Mexico?
Lending criteria of the ALA mandate.

Have the EIB taken into account Union European cooperation priorities to target their lending activities in Mexico? **YES**

Has there been an assessment of how each loan fits into the joint development strategy for the country laid out in the Mexico Country Strategy Paper? **NO**

Have the priorities of EIB lending activities in Mexico evolved at all in the last 10 years? **NO**

Selection process of project to be financed,
and pre-appraisal

Can you briefly describe how the negotiations between the EIB and the Mexican Project Responsible took place? **Negotiations took place between the legal and the operational departments of both institutions.**

Which policy guidelines and eligibility criteria have been implemented by the EIB in the selection projects and in granting loans in Mexico? **As per the ALA mandate, the mutual interest criteria has been implemented.**

Were eligibility criteria based on environmental or social considerations? **Environmental and social considerations are an element of the EIB appraisal.**

Did the Commission's Mexico Delegation be part of the selection of the projects? **It is not the Commission's responsibility to participate in the EIB's project selection process.**

Has there been an assessment of how each loan fits into the joint development strategy for the country laid out in the Mexico Country Strategy Paper? **No, but EIB loans fit into the ALA mandate.**

?

For which project have pre-appraisals been carried out? **An appraisal has been carried out for each project.**

Did the EIB specifically request those analyses or were they carried out independently ? **If this questions refers to number 18: Environmental analysis are a requirement of the EIB before appraising a project.**

How much of the Bank loans were allocated to this pre-appraisal work? **Bank loans are allocated for the actual investment.**

Who carries out those appraisal? **The EIB appraisal team together with the borrower.**

? ? ? ? ?

Execution and Monitoring of the Projects

? ? ?

Has EIB established a mechanism for monitoring projects? **YES**

Has interim appraisal monitoring of the projects been carried out? **YES**

?

Has any coordination taken place between the Commission's Mexico Delegation and the EIB with regard to the monitoring of the projects? **The EIB informs the EC of its activities in the country.**

The evaluation

Have EIB and/or project promoters conducted an ex-post project appraisal? **Not yet.**

How much interim and post-appraisal budget was allocated to solve significant environmental or social issues or failed impact on development? **There were no significant environmental issues to be solved.**

How was the final impact of the project appraised? Did it comply with its initial objectives? **The project is not yet completed. Therefore the ex-post evaluation is not yet carried out.**

Information Accessibility

Did procedures for informing the public about the project exist? **YES**

? ? ?

Have progress reports and financial statements been provided? **YES**

Do Project Document, project appraisal documentation, Environmental and Social Studies, Interim and ex-post evaluation reports, etc. available to the public ? **NO**

If the answer to 44 is YES, can you provide these documents for the consultant. **NO**

THE FOLLOWING TEXT ANSWERS QUESTIONS NUMBER 6, 7, 18, 23-31, 34, 40-42:

Background

Natural gas distribution grids are very common in Europe, the US and South America, as well as in other areas in the world. The principal technology is well established. It is well recognised for its contribution to the efficient distribution of energy in large cities. In addition natural gas is considered to be a fuel, the use of which is supposed to contribute less to climate change and air pollution than other fossil fuels.

The Mexi-Gas project comprises the construction and operation of a natural gas distribution network in the Valley of Cuautitlan-Texcoco in the Mexico City urban region under a 30-year distribution permit, twice renewable by 15 years. It aims at offering an alternative energy to other liquid oil products used in the densely populated area, which also suffers from significant air pollution.

Gas distribution in the State of Mexico underwent a privatisation process, supervised and managed by the *Comision Reguladora de Energia (CRE)*, the Mexican regulator in the energy sector. The permit, awarded to the promoter in September 1998, was the fourteenth in a row of seventeen permits tendered internationally and granted for various cities and areas in Mexico.

The promoter's permit contains a five-year exclusive right period to develop pipelines and distribution grids in the respective license area. After five years CMG must allow for interconnection of its network to potential new systems of other permit owners. Gas trading by third parties is allowed from the beginning of the license period, if excess capacity is available in the grid. This structure led the promoter to define itself mainly as operator of the physical assets in the distribution area. Distribution tariffs offered for approval to the CRE have been calculated accordingly, with cost of gas being basically a pass-through item.

According to national energy statistics, the fuel market in the Cuautitlan-Texcoco Valley is characterised by the dominant use of liquid petroleum products such as LPG, gasoil, diesel and heavy fuel oil. Natural gas will be competitive with all of the above-mentioned fuels except heavy fuel oil, the use of which however is limited by environmental legislation. As a result, it is expected that natural gas will displace LPG particularly in the domestic sector, where higher LPG prices and the added inconvenience of handling should be sufficient to attract customers. For industry, low sulphur gasoil (required by law since 1997) and natural gas are likely to be roughly equivalent in price. The penetration rate is therefore expected to be more significant in the domestic sector and than in the industrial sector.

ENVIRONMENTAL IMPACT

For this project an environmental study has been conducted and results were approved by the various federal authorities and local municipalities in Mexico (Manifestacion de Impacto Ambiental Modalidad General del Proyecto de Construccion, Operacion y Mantenimiento de Una Red de Distribucion de Gas Natural para La Zona del Valle Cuatitlan-Texcoco). The potential impacts on the environment are considered temporary and mitigatable, or negligible mainly due to the urban character of the project area. The approval from the *Instituto Nacional de Ecologia, Direccion General de Ordenamiento Ecológico e Impacto Ambiental* accepts and specifies the norms and measures suggested for the construction and operation of the grid.

The natural gas will replace LPG as well as fuel oil and gasoil in the local energy markets, thus also helping to reduce polluting emissions in densely populated areas. In the European Union similar gas distribution projects in urban areas fall under Annex II of Directive 97/11/CE of 3 March 1997, which does not make a formal environmental impact assessment mandatory, but leaves the decision to the competent authority in charge to request it, if considered appropriate.

Technical Standards

The technical standards applied to the project follow Mexican norms where appropriate, and American and European norms where appropriate. The technical bid of the promoter provides a list of 14 pages of norms, including international standards, such as ASME, ANSI, API and EN norms.

Public Information, Transparency

The natural gas sector is regulated in Mexico by the *Comision Reguladora de Energia (CRE)*. Legislation applicable to natural gas, such as DIR-GAS-001-1996 and other publications, can be found on their web site (www.cre.gob.mx). Decisions taken by the CRE are generally published in the *Diario Oficial de la Federacion*. CRE uses the journal as well for public consultation processes, as stipulated in Mexican law. As such the CRE has consulted the public on the gas directive various times in 1995/96, which led to an intensive exchange of information with interested parties and which provided input from the public to the directive.

Monitoring

The promoter provided regular information as requested by the Bank's finance contract. The Bank is not informed about any environmental or social problem, which may have occurred during the implementation of the project.

Tendering

The CRE published in December 1997 two invitations for tenders in the Mexican Official Journal *Diario Oficial de la Federación* for the distribution of natural gas in the Mexico City urban area (Federal District and Valley of Cuautitlan-Texcoco). The Promoter has been successful for both permits on grounds of satisfactory technical standards and commercial criteria. Regulations required different operators in each zone, which led to the promoter choosing the Valley area.

A significant number of companies had bought the tender documents and firm bids came in from bidders from Spain, USA, Mexico and France. Information activities were undertaken by the *Investment Promotion Office Secretariat of Energy* of the Mexican Ministry of Energy prior to tendering, in order to raise awareness of leading gas distribution companies in the US, Canada, Mexico and Europe for investment opportunities in the Mexican gas distribution market.

Sustainability

There are several aspects of sustainability associated with the project. Foremost is economic sustainability. The provision of a continuous supply of natural gas directly to customers' premises through a fixed pipeline network were seen to have significant cost and convenience advantages over the alternatives that are otherwise available to Mexican consumers. At present, industrial and commercial consumers have fuel oil or liquefied petroleum gas (LPG) delivered to bulk storage tanks; residential consumers generally purchase LPG as butane or propane in 5-20kg bottles. In Europe, the economic cost of LPG is often double that of pipeline gas. In Mexico, the economic costs would also favour pipeline gas, however, due to national price control mechanisms on socially sensitive petroleum products, LPG has remained fairly competitive in some markets. In the long run, in a fully deregulated market, natural gas would be expected to displace LPG in urban areas where distribution networks are established. In addition, at an equivalent cost, consumers are provided the added convenience of not having to order and replace LPG supplies.

The second aspect of sustainability is environmental. Pipeline distribution networks are relatively benign with respect to the environment once installed. Their main impacts are generally limited to disturbances to people in urban areas during construction. The need for additional natural gas transmission pipelines could have wider environmental impacts, but these would be dealt with through proper Environmental Impact procedures for investments outside the scope of this project. In general, the project will lead to improvements in the environment in as much as it replaces "dirtier" fossil fuels such fuel oil, including the gasoline and diesel fuel used for transporting and delivering bottled gas. The third aspect of sustainability is social. In this, the project is responsible for a clear improvement. For many people, bottled gas is physically difficult to lift and its safety is always a concern. Accidents at home and during handling are not uncommon. Natural gas distribution networks have a long history of safe supply, in particular when constructed within modern technical specifications. In sum, the natural gas distribution network provides a long-term cost effective, safe and clean alternative for consumers in Mexico City.

Thanks for answering.

Appendix 4

Questionnaire to Consortium Mexi-Gas "Mexigas Questionnaire"

QUESTIONNAIRE CONSORCIO MEXI-GAS, S.A DE C.V.

This Questionnaire about the "Consortio Mexi-Gas" and the European Investment Bank (EIB) loans is part of a Mexican Case Study about EIB Activities in Mexico which itself belongs to the report "The Development Impact of the European Investment Bank (EIB) Lending Operations in the Cotonou and ALA Framework" which has been commissioned by the European Parliament to Campagna per la Riforma della Banca Mondiale / CRBM / Italia and WEED / Germany.

ID QUESTIONS

First name: **Vergès** _____
Last name: **Nicolas** _____
H: M:
Personal Background: **Various positions as CFO in UK, Hungaria, France, Greece ,Gabon** _____
Title/Position: **CFO** _____
Telephone number: **52 (55) 52 84 40 17** _____
E-mail address: **nverges@maxigas.com.mx** _____

THE "CONSORCIO MEXI-GAS"

1. Please write a short presentation of the "Consortio Mexi-Gas, S.A de C.V."
CMG operates 1424 Km of networks of which 929 Km were built by the company for 130 000 customers. CMG sells and distributes 1.3 Gm3 of gas. The increase for sales of gas 2003/2004 was +14% and for the first time the company achieved a positive net profit in 2004 due to the implementation of new tariffs approved by the regulator under which CMG operates.

Please precise the following information:

Director name: Tourres Jean _____
Address of the Headquarter: Blv M Avila Camacho No 36 piso 17
Col Lomas Chapultepec, Mexico,DF. CP 11000 _____
Date of creation: 10/08/1998 _____
Type of Company (Precise the Proportion of Mexican, International and/or European Capital, etc.): SA de CV , 100% owned by Gas de France International
Turnover: 928 MMXP (2004) _____
Net profit: 360 MMXP _____
Staff: 287 _____
Main activities: Distribution of Natural Gas _____

2. Does Mexi-Gas make its yearly activity report available to the public?
YES NO

**“THE MEXI-GAS PROJECT”
AND THE EIB**

3. The EIB authorized two loans to “Consortio Mexi-Gas” (the first one on December 21, 1999 for an amount of 26,611,472 Euros; the second one, on June 22, 2000 for 47,717,842 Euros) to the project “Construction and operation of gas supply network in Mexico City”. Can you confirm this information?
YES NO

4. Please describe the Mexi-Gas project briefly. Precise final beneficiaries, objective(s), the different stages and execution period of each one, total amount, etc.

In the frame of an International bid, GDF won the exclusivity right to sell and distribute natural gas in the Valle Cautitlan Texcoco zone (VCT)

5. What are the advantages / disadvantages of the Natural Gas compared to other energetic resources?
+safer, cleaner, cheaper, easy to use
- needs a change of culture, needs to revisit and refit the internal installations for the households customers

6. Precise the goals in terms of economic, environmental and social development of the project?
Develop an NG network according to international standards, provide an efficient, safe and honest service and a modern and competitive alternative towards customers

7. How did the negotiation between the EIB and Mexi-Gas take place?
Those in charge of the credit arrangement (Maxence Mirabeau and Philippe Frêne) are no longer in the company and our files do not show any documents related to that period.

8. Which proportion of the total cost of the project did the EIB loans amount to?
22.7% of total investments costs

9. Can you precise the status of disbursement of each loan?
4 disbursements in all have been completed

10. Why in your opinion did the EIB select the Mexi-Gas project to be financed?
Not in position to answer that question

11. Did Mexi-Gas have any kind of contacts with the Delegation of the Commission European in Mexico?
YES NO

If the answers to 12 it is YES, describe the type of relations that your company has / had with the EU Delegation.

THE PROCESS OF APPROVAL

12. Have analyses been carried out to appraise the project's sustainability on a social and environmental level before the approval of the project?

YES NO

Not in position to answer that question and the following

If the answer to 12 is YES, please answer question 14 and 24.

13. How much of the Bank loans were allocated to this pre-appraisal work?

14. Who realizes those analyses?

15. What kind of environmental or social impacts/criteria taken into account in the appraisal of the project?

16. Were national (national Law and norms about gas), European (UE or EIB Environmental and Social assessments, etc.) and/or International (World Bank safeguards, etc.) guidelines implemented to carry out the appraisal?

YES NO

If the answer to 16 is YES, please indicate which guidelines were used.

17. Did the appraisal include beneficiary population consultations?

YES NO

If the answer to 17 is YES, please precise how the consultations took place and what instrument for consultation were employed.

18. Were any negative environmental or social impacts detected?

YES NO

If the answer to 18 is YES, describe which negative impacts were detected and describe the mitigation measures which have been implemented.

THE PROJECT EXECUTION

19. Did the project create any kind of major environmental or social problems?

20. Has interim appraisal monitoring of the projects carried out?

YES NO

If the answer to 20 is YES, please describe under which circumstances they were carried out. Precise responsible, techniques used, frequency, data retained, etc.

21. Were negative environmental or social impacts detected?
YES NO

If the answer to 21 is YES, describe which negative impacts were detected and describe the mitigation measures which were implemented.

THE EVALUATION

22. Has ex-post appraisal carried out?
YES NO

If the answer to 22 is YES, please be specific as to the conditions of realization.

23. How much interim and post-appraisal budget was allocated to solve outstanding environmental or social issues or failed impact on development?

24. How yourself appraise the final impact of the project? Do you think it complied with its initial objectives?

INFORMATION ACCESSIBILITY

25. Did procedures for informing the public about the project exist?

26. Have progress reports and financial statements been provided?

27. Does Mexi-Gas make documents of the "Mexi-Gas project" (project Document, Environmental and Social Studies, Interim and ex-post evaluation reports, etc.) available to the public?
YES NO

If the answer to 27 is YES, can you avail these documents to the consultant.

THANKS FOR ANSWERING

Appendix 5

Natural gas network Service Survey

Encuesta sobre el *Servicio de Gas Natural por Red*

Se agradece responder a estas preguntas.

1. ¿ Desde cuantos años cuenta con la conexión a la Red de Gas Natural ? _____ años

2. ¿ La conexión a la Red de gas ya estaba instalada cuando rentó / compró su casa ? Sí
 No ¿ Su familia fue consultada / recibió información antes de la realización de las obras ? Sí No

3. ¿ Está satisfecho/a con el servicio que se brinda ? Sí No

En comparación con el gas en tanque o estacionario, considera que el servicio de gas por Red es :
 más barato igual más caro

4. ¿ Cuánto paga usted (o su familia) por este servicio ¿ aprox. _____ pesos / mes

5. ¿ Cuántas personas lo ocupan ? _____ personas

6. ¿ Es continuo el servicio de distribución de gas ? Sí No

7. ¿ Considera que las instalaciones de la Red son seguras y apropiadas ? Sí No
Porqué?

8. ¿ Recomendaría este servicio a un pariente y/o un(a) amigo(a) ? Sí No Porqué?

Ventajas : _____

Desventajas : _____

9. ¿ Ha tenido o escuchado de algún problema respecto a este servicio y/o a las instalaciones ? No Sí
¿Cuál(es)? _____

Datos del entrevistado: Hombre___ / Mujer___ Edad___ Estado/Municipio_____

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