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International Environmental Intelligence Brief

DCI Environmental Center

15 August 1997

Contents	Page
<i>Articles</i>	
EU Seizes Illegal CFC Shipment [redacted]	1
[redacted]	2
India Seeking Funding from Montreal Protocol [redacted]	3
China Improving Environmental Policy Slowly [redacted]	4
Drought Affecting China's Grain Crops [redacted]	6
Chile Struggling To Balance Environment and Business [redacted]	7
South American Project Fuels Environmental Concerns [redacted]	8
Climate Change Talks Make Little Headway [redacted]	9
DCI Environmental Center Begins Work [redacted]	10
<i>In Brief</i>	11
<i>Calendar</i>	12

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EU Seizes Illegal CFC Shipment [redacted]

The EU recently announced the seizure of more than 150 tons of illicit CFCs in the Netherlands and the arrest of a suspect in Germany. [redacted]

[redacted] This marks the first such cooperative effort among EU customs officials to curb the flow of illicit Russian, Chinese, and Indian CFCs through EU member states since January 1995 when CFC production was banned in the EU. Much of these illicit products are smuggled into the US. [redacted]

In response to growing complaints from producers of ozone-safe CFC alternatives and from the Montreal Protocol Secretariat that EU inaction is fueling the CFC black market, the Commission has been looking for ways to tighten up the import licensing regime for CFCs. EU officials will highlight this seizure to underscore the Union's commitment to enforce Protocol provisions when the Montreal Conference of Parties meets next month. [redacted]

Customs authorities from Germany, Belgium, the UK, and the Netherlands—in conjunction with the EU's Anti-Fraud Unit—cooperated in the operation that uncovered the smuggled materials. The CFCs were brought into the EU from China using false certificates of origin and declared as used CFCs for recycling.

- Smugglers mislabel virgin CFCs as product for recycling to take advantage of EU rules permitting a limited quantity of CFCs for recycling to be imported under a quota system.

[redacted] about one-half of the 15,000 to 20,000 tons of illicit CFCs from Russia are smuggled into the US each year, much of it passing through European trading companies. [redacted]

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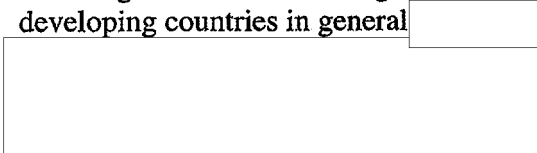




India Seeking Funding from Montreal Protocol

The Indian Government is demanding funding from the Montreal Protocol Secretariat for chlorofluorcarbon phaseout and is insisting that India be permitted to export CFCs to other developing countries. New Delhi is trying to defuse potential criticism by passing and heavily publicizing laws that encourage compliance with the Protocol.

- At the June Protocol working group meetings, Indian representatives pushed for a large increase in funding for developing countries in general



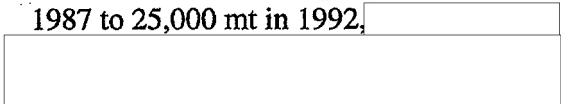
- India probably sees US backing for a proposed World Bank-led project to help finance the closing of Russian CFC plants as a signal that it might qualify for similar aid.

In addition, India wants to repeal the Protocol clause that allows industrialized countries to export 15 percent of their 1986 CFC output to developing countries and is demanding instead that India be allowed to produce for export. The Protocol permits India to produce for domestic consumption only.

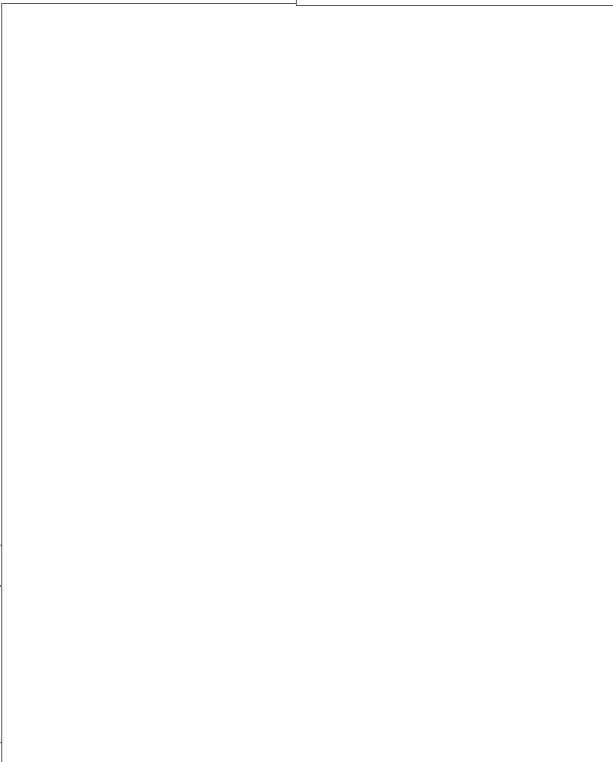
According to press reports, the Indian Government in 1995 prohibited new production capacity for the manufacture of CFCs and indicated it intended to draft a law banning the use of CFCs completely by

2010; both are consistent with Montreal Protocol provisions. Nonetheless, CFC producers are unlikely to engage in early phaseout activities and seem intent on expanding their domestic and international market share of CFCs while waiting for international assistance before converting production to ozone-safe alternatives.

- India expanded its production capacity from 5,500 metric tons per year in 1987 to 25,000 mt in 1992,



- Because domestic consumption amounts to about 6,400 mt per year, large quantities of Indian CFCs enter the black market;



China Improving Environmental Policy Slowly

Over the past two months, China's three top senior political leaders have made positive statements about the need for greater protection of the environment. At a recent Communist Party forum on the environment, Jiang called on government officials to take the environment into consideration when making policy, according to official Chinese press reports.

- Li Peng said that China should “never sacrifice the environment for temporary [economic] growth.”
- In June Qiao Shi, chairman of the National People's Congress (NPC), voiced similar concerns, calling for greater investments in environmental protection and arguing that China cannot afford to pollute now and clean up later, according to Chinese press reports.

The national legislature and local communities are showing more activism, but central and local authorities appear willing to address environmental problems only when it can be done cheaply. Last year the NPC passed environmental legislation covering air, water, noise, and solid-waste pollution and recently promised to do more this year, according to Chinese press reports.

The National Environmental Protection Agency (NEPA) is showing signs of becoming more aggressive in enforcement. In April NEPA closed 62,561 enterprises identified as severe polluters in

21 provinces; however, most of the plants were small smelters, coking plants, and papermills without much political influence or a large work force.

- In prosperous cities, the public is beginning to speak out on environmental issues, and local governments are sometimes responding. In Guangzhou, with the country's highest urban per capita income, public demands for a cleaner city led the municipal government to devote more resources to environmental cleanup.
- A Beijing citizens' protest last month against a local garbage dump for polluting air and groundwater led the municipal environmental protection agency to investigate.

Nonetheless, ensuring economic growth and high levels of employment continue to take precedence over environmental concerns. We have yet to see movement on key indicators of policy reform such as the central government endowing NEPA with greater enforcement authority or an increase in spending on environmental technology.

- The central government pledged to invest \$21 billion in environmental programs and equipment during the current Five-Year Plan (1996-2000), but Western press reports indicate it has spent only a small fraction of that amount.



— Chinese officials have identified 2010 as the year when China will be sufficiently developed to dedicate more resources to environmental protection.



Drought Affecting China's Grain Crops

[redacted] China's grain production is 480 million metric tons, about 23 million tons less than the record last year. This is slightly lower than Beijing's official forecast of 484 million mt.

- Major losses in the corn and spring wheat crops are expected in the provinces bordering on North Korea, the east coast provinces of Shandong and Jiangsu, and in the southern province of Jiangxi.
- A record harvest of early grains this summer—mainly winter wheat and the first of three rice crops—represents only a fourth of total production and will not compensate for drought-related losses.

[redacted]

The shortfall is unlikely to have a significant impact on Chinese grain imports or inflation, however. With record grain imports in 1995 and a ban on corn exports for the past two years, China's stocks have risen to nearly 150 million tons, [redacted]

- These supplies are likely to be drawn down to keep meat and processed food prices stable. [redacted]

Without an increase in Chinese cereal imports, slow US grain sales—historically a driver of US exports to China—will contribute to the expanding trade deficit. In the first five months of this year, US cereal exports declined more than 95 percent as compared with the same period last year.

- The overall US deficit with China was \$16.9 billion in May and should reach \$53 billion this year. [redacted]

Tighter supplies in China could reduce its barter exports and aid to North Korea.

Because food accounts for roughly half of average household expenditures, according to official Chinese press reports, grain shortfalls in the past have had a substantial effect on general inflation. Falling grain prices this year have helped push inflation close to zero—retail prices rose 0.8 percent in the year through May. [redacted]

**Chile Struggling To Balance
Environment and Business**

The resignation last month of the director of Chile's National Environmental Commission (CONAMA) reflects the Frei administration's dilemma of promoting economic development while protecting the environment. Press reports suggest the former director was pushing for stricter environmental controls on a controversial dam project that Frei supports.

- The new director has little relevant experience and is likely to take a less critical stance on the government's gradualist approach to environmental protection.

Since its establishment in 1994, CONAMA has only marginally altered Santiago's reliance on ad hoc regulatory bodies with blurred lines of authority. The commission has few enforcement mechanisms or resources—its annual budget in 1995 was only \$11 million—and its decisions are sometimes challenged in the courts.

- The Supreme Court in March annulled CONAMA's approval of a US-based firm's forestry investment and a local court delayed the startup of the GasAndes natural gas pipeline linking Chile and Argentina, a project that includes two US firms.

Despite such difficulties, Frei last week announced a new \$600 million pollution control plan for the capital, which will levy fees on large factories failing to reduce emissions. CONAMA is analyzing 51 pending investment projects worth \$5 billion, and strict guidelines enacted in April expand the number of companies required to submit environmental impact studies.

Santiago's environmental regime is one of the region's most advanced, a point officials will stress when Chile's eligibility for NAFTA accession is debated. Chilean businesses generally are opposed to including environmental standards in a trade agreement, but they are unlikely to risk scuttling a deal unless the conditions become too onerous.



South American Project Fuels

Environmental Concerns



A Belgian company has started the first phase of a project to widen and deepen the Parana River, which runs through Brazil, Argentina, and Paraguay. The \$700 million undertaking will facilitate intraregional trade, but environmental groups argue it will severely damage Brazil's Pantanal region, one of the largest wetlands in the world.

— The Brazilian Government, which is jointly funding the project with its neighbors, tends to agree with the environmental groups,



but so far



has not tempered its support.




Paraguayan President Wasmosy, the waterway's most ardent supporter, has published his own environmental study that concludes the impact will be relatively benign. During his recent tour of similar projects in the US, Wasmosy asked Washington for \$2.5 million to fund additional impact studies, apparently to defuse opposition.

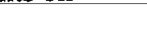
— Construction is likely to continue, as public support for the project's economic benefits outweighs concerns about its environmental impact.







Climate Change Talks Make Little Headway 


The talks that ended last week in Bonn to formulate a negotiating text for a protocol to the climate change convention made slow progress.  The protocol effort aims to conclude an agreement to reduce carbon emissions from fossil fuel combustion by a December ministerial meeting in Kyoto. Argentina and Brazil were willing to cooperate with developed countries on emissions trading and joint implementation, but other governments tended to restate their own positions rather than to compromise.

- Australia and Norway—both major fossil fuel producers—insisted on differentiated targets based on GDP energy intensity, per capita carbon emissions, or trade dependence on fossil fuels as the only equitable way to reduce emissions.
- Thailand (for the Group of 77 developing countries) continued to demand significant carbon reductions from developed countries before LDCs would commit to any constraints on their own growing emissions. 

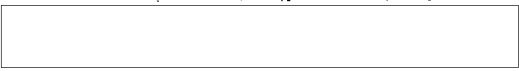
The UK (for the EU) and France defended the EU approach for one emissions reduction target to fit all. 



Tokyo concentrated its effort on increasing the pressure on China to make emissions commitments and on attacking the EU's approach.  In

addition, Japan accepted the US emissions target budget concept for multiyear emissions accounting. 

Slow progress this summer has given urgency to ministerials and summits in the autumn to prepare for Kyoto. New Zealand has proposed a meeting for October in Toronto to thrash out differences, and Japan is urging a small ministerial of major OECD countries plus Russia for November.



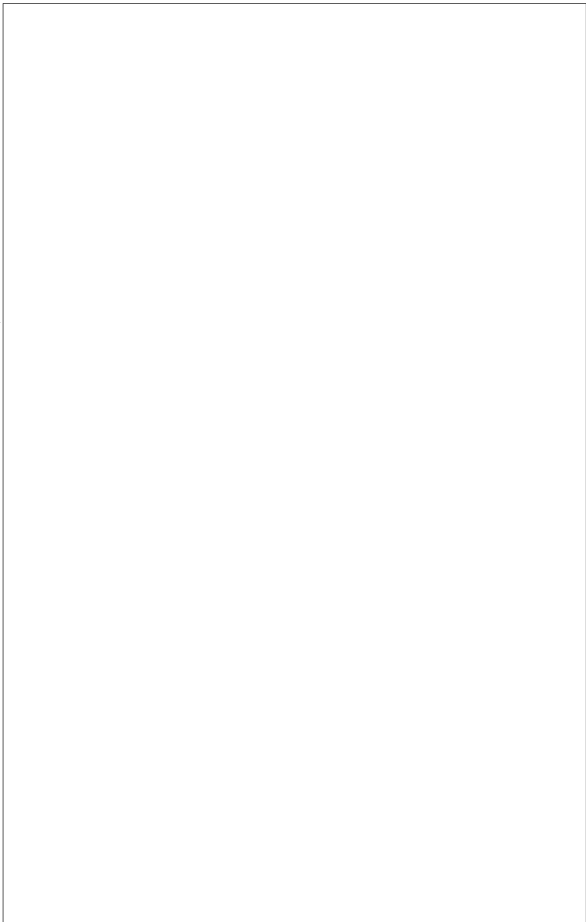
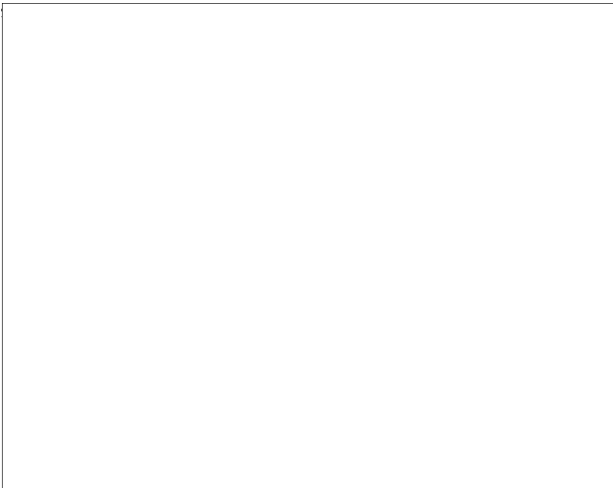


DCI Environmental Center Begins Work



The new DCI Environmental Center—which will be fully operational by 1 October—will comprise members of the Intelligence Community and related civil and defense agencies. The Center's objectives are to assess the national security implications of environmental issues, including the role of environment in exacerbating regional instability, conflict, and economic decline.

- It will provide direct support to policymakers on environmental crime, treaty compliance, and negotiations.

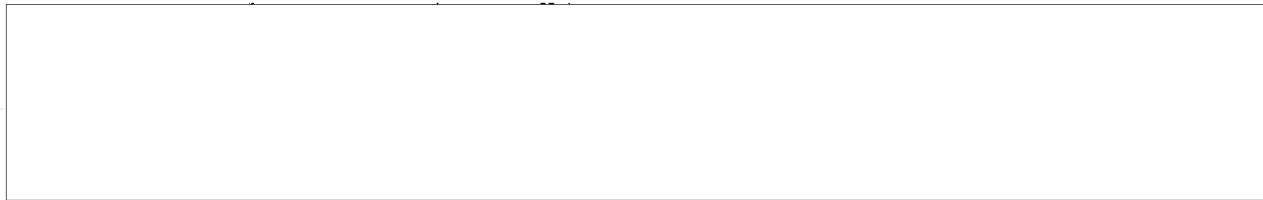




In Brief

East Asia

— **Indonesian** legislature passed revised environmental protection bill ... includes increase in fines on polluters from \$10 to \$4,000 per offense and bans toxic-waste imports [redacted] Suharto may not sign bill because of opposition from business groups. [redacted]



Eurasia

— **Russia** last week ratified Antarctic Treaty's Protocol on Environmental Protection ... 25 of 26 Consultative Parties on board ... Protocol makes area natural reserve and promotes safe waste management ... [redacted]

Americas

— **Brazilian** senate recently passed first ever environmental crime law imposing fines, imprisonment for illegal logging, pollution ... needs approval of the Chamber of Deputies to become law ... if enacted, will help deter worst violations, but lack of resources could impede effective enforcement. [redacted]

— [redacted] **Brazil** to auction timber extraction rights in an Amazonian national forest through regulated concession system to deter illegal logging ... limited manpower, equipment, and budget will hamper enforcement ... harvest to begin by late next month. [redacted]





Calendar

Selected International Environment-Related Meetings

<i>Date</i>	<i>Forum</i>	<i>Venue</i>
10-18 September	Ninth Conference of Parties to the Montreal Protocol	Montreal
22-24 September	WTO Committee on Trade and the Environment	Geneva
28 September--10 October	First Conference of Parties to the Desertification Convention	Rome
7-14 October	Fifth Conference of Parties to the Basel Convention	Kuala Lumpur
13-17 October	Ad Hoc Expert Group Meets on Biosafety	Montreal
13-22 October	Eleventh World Forestry Congress	Turkey
20-25 October	UNECE Convention on a Protocol on Persistent Organic Pollutants - Working Group	Geneva
27-28 October	NATO Committee on Challenges to Modern Society (CCMS), Fall Plenary	Madrid
27-31 October	Nineteenth Meeting of Parties to the 1972 London Convention for the Prevention of Marine Pollution by Waste Dumping	London
25-26 November	APEC Workshop on Environmental Technology Exchange	Osaka
30 November	Defense Ministerial of the Americas	Cartagena
1-12 December	Third Conference of Parties to the Climate Change Convention	Kyoto

