would also incur additional costs to secure and deliver compensation goods as such commercial activities would be outside its normal functions as a power utility owner-operator.

It is not possible to provide any realistic indication of the impact of cost of project development of compensation trade in advance of proposals identifying the specific class of goods offered, the percentage of debt to be financed through this mechanism and other commercial details.

Conceptually, compensation trade could be represented in the financial model by an appropriate premium on the cost of debt service. Comparison of the interest cost of foreign exchange borrowings between Cases B1.06, B1.01 and B1.07 for Three Gorges illustrates the effect of average foreign loan borrowing costs at interest rates of 6, 10 and 12 percent. This comparison, while not directly representative of countertrade applied specifically to equity retirement, does provide an indication of the additional cost of foreign debt service with increasing average rates of interest.

A significant element associated with equity participation, even in the form of preferred shares as adopted herein, is that this financial contribution would provide for deferral of repayment until after project completion. Moreover, repatriation of the foreign equity investment will occur over a longer term than would likely be available under conventional commercial borrowings. It would be difficult, if not impossible, to establish even a sense of the futures market for commodities as far forward as would be necessary to establish countertrade arrangements for repayment of foreign equity participation.

On balance, compensation trade does not appear to be an attractive means of securing equity participation, although it may have more application to other components of project financing.