



## **Enhanced Export Credit Agency Financing Terms in Response to Climate Change (September 17, 2009)**

The following memo focuses on the appropriateness of enhanced financing terms being negotiated by the Participants to the Arrangement on Officially Supported Export Credits (Participants) in response to the challenge of climate change.

### **1) General principles**

Public financing from export credit agencies is a limited public commodity and should be specially designed for and restricted to public interest purposes. Therefore, some overarching general principles should be applied when considering whether and how to provide enhanced financing terms for a technology or activity in response to climate change:

- **Long Term Perspective on Climate Impacts:** The technology or activity should be truly helpful for long-term climate stabilization and should not serve to perpetuate energy paths that worsen climate change. For example, public support for so-called “clean” coal perpetuates reliance on fossil fuel, while directing public resources away from clean technologies such as wind power. Also, export credit agencies often support projects that have long lifespans, so negotiations should consider what will be considered helpful or harmful energy technology paths in, say, 15 years.
- **Environmentally and Socially Responsible:** In addition to mitigating greenhouse gas emissions, the technology or activity should not have other, unacceptable environmental and social side effects, such as carbon offset projects that convert primary tropical forests or large scale projects that involuntarily displace communities.
- **Transformative:** Use of scarce public financing should focus on technologies or activities that are transformative towards a low carbon energy pathway. Enhanced financing terms should cause a demonstrable shift in energy production methods and consumption patterns, and not simply be an add-on to mainstream approaches.
- **Ready or Close-to-Ready for Deployment:** The technology or activity should be either technologically and financially feasible or close to feasible, especially with the help of enhanced financing. Promising technologies are in the developmental stages, but are not yet proven to be deployable at a scale required for rapid transition away from climate change intensive industries. For example, carbon capture and storage technology is in the developmental stages and has not yet

proven to be technologically and financially feasible or rapidly deployable, while solar photovoltaic technology, wind turbine electrical generation, and electric vehicle technologies are feasible and are already widely deployed in regional contexts. Limited public funds should avoid risky venture capital-style investments and focus on proven, but underfunded, technologies.

- **Alternatives assessment:** Emphasis should be placed on approaches that combine higher degrees of environmental and financial optimization relative to alternative approaches (i.e., are there lower carbon alternatives that could achieve the same outcome more safely and cheaply)?
- **Responsive to Market Improvements:** The test should change over time. Cutting-edge environmental technologies of today may become mainstream tomorrow. This must include a process to improve over time, such as an index with a constantly improving minimum baseline.

## 2) Ending financing support for fossil fuel-related transactions

The purpose of the negotiation is to address the challenges related to climate change. Participants should not only consider individual projects, but the overall climate footprint of their activities. In the case of most major Export Credit Agencies (ECAs), renewable energy and energy efficiency transactions are a tiny percentage of fossil fuel-related transactions. Thus, it is likely that any conceivable increase in renewable energy or energy efficiency will still be overshadowed by an ECA's far greater negative contribution to global climate change through its continued financing of fossil fuel exploration, extraction, transportation, and energy generation, as well as large energy consuming sectors such as aviation. Ending financing for fossil fuel-related transactions should become a priority.

## 3) Energy efficiency

Our organizations strongly support downstream, end use, energy efficient projects, goods and services. These include residential, commercial real estate, community, and many industrial (non fossil fuel generating) applications, such as zero net emissions building technology. These technologies can dramatically reduce energy consumption, and ECAs can play a leadership role in the development of policies and technologies that can be exported to countries where energy efficiency is desperately needed. ECA support could do much to expand the application of these technologies globally. However, we have a different perspective on the efficacy of enhanced financing for energy efficiency measures on new upstream fossil fuel energy extraction, production, and/or transport projects. We see no public benefit to providing enhanced financial terms for increasing energy efficiency in the production of fossil fuels. Whatever marginal energy efficiency benefit there may be (e.g., solar panels and energy efficient light bulbs on an offshore oil rig), the larger lifecycle emissions of fossil fuel projects and the perpetuation of fossil fuel dependency over the long run outstrips this trivial benefit. Public finance agencies should provide funding which decreases the profitability of fossil fuel projects; giving preferential financial terms that perpetuate, rather than diminish fossil fuel dependency does nothing to achieve this end. Accordingly, we see no merit in enhanced financial

terms for most new fossil fuel energy generation plants except, perhaps, for energy efficient combined cycle plants. However, the upgrade of old, inefficient brownfield fossil fuel energy production plants may be acceptable, as long as doing so does not thwart the conversion of energy generation to renewable and less carbon-intensive energy generation.

#### **4) “Clean” coal, carbon capture and storage, coal bed methane**

In the face of overwhelming evidence of a climate change crisis and of the damaging environmental and social side effects from the world’s fossil fuel infrastructure, most environmental networks with which we are associated oppose financing for new fossil fuel projects, especially those using coal, as coal contributes about 60 percent of global CO<sub>2</sub> emissions. Therefore, support for carbon capture and storage remains unacceptable to us. We are not persuaded by arguments that countries like India or China will burn fossil fuel such as coal anyway, and that “clean coal” is therefore an environmentally superior option. Further, supercritical coal is already more efficient and cheaper than conventional coal, and therefore not in need of enhanced financing terms. Yet these so-called “clean” technologies will emit several million tonnes of greenhouse gasses over their 20-40 year lifespans. Carbon capture and storage technology remains technologically unproven and financially risky. The role of public capital in credit agencies should not be to support risky ventures.

#### **5) Carbon offsets and carbon trading**

The potential for the provision of enhanced financing terms directly or indirectly related to carbon offset projects and carbon trading has been mentioned. Any funds raised through offsets come at the expense of climate-damaging pollution being allowed to continue. Offsets are therefore counterproductive in any strategy aimed at combating climate change and, indeed, only serve to delay the transition to a low-carbon economy. The June 2009 agreement of the Participants already allows enhanced financing for renewable energy projects and these, rather than offsets, should be built on to enable funding of marginal renewable energy projects.

Meanwhile, there is increasing experience, research, and literature that indicates that carbon offset schemes are questionable at best, with dubious baselines and doubtful additionality – both of these are necessary for the scheme to work. For example (just to name a few) carbon offsets for “clean” coal are suspect because it appears that such technology is already cheaper than conventional coal and increasingly being deployed anyway, hence no clear baseline or additionality. Indeed, the evidence is now clear that verifiable “additionality” is a theoretical chimera. Also, offset projects can have harmful side effects, such as those that decrease biodiversity and harm affected communities and indigenous peoples who depend on these areas for subsistence and livelihood.

Meanwhile, the dangers associated with carbon trading in the context of the rapidly changing economic system are articulated by Friends of the Earth’s Michelle Chan, in a report entitled *Subprime Carbon* and in her testimony before the US Congress:

<http://www.foe.org/subprime-carbon-testimony>

## **6) Biofuels**

Biofuels are an increasingly suspect form of fuel with regard to climate change and have many negative environmental and social impacts, and therefore should not be provided with enhanced financing terms. While some biofuel feedstocks – such as certain species at small scales – are acceptable, the greatest increase in the production and use of biofuels has been on a large scale, converting vast acreages of land otherwise used in the production of food and biologically diverse forests, including native and primary tropical forests. Additionally, this practice displaces indigenous and other local peoples who depend on these lands for sustenance and livelihood. In Brazil and elsewhere, large scale biofuel production has been linked to use of slavery and dangerous working conditions. In addition, large scale biofuel production often requires ecologically inappropriate species and agricultural systems that require heavy use of pesticides and fertilizers that poison the environment and local communities. Biofuels have a very poor energy balance, meaning that the production and transport of these fuels requires almost as much energy as they produce (especially corn ethanol). Some studies indicate that the conversion of some lands, such as forests, grasslands, and peatland for biofuel production results in the release of far more stored greenhouse gas emissions than are saved by the displacement of fossil fuels.

## **7) Waste incineration/biomass power**

We oppose enhanced financing terms for waste incineration, including biomass power, because this technology represents a false solution to climate change with significant harmful side effects. According to the U.S. Environmental Protection Agency, incinerators burning municipal waste as a power source produce up to twice the greenhouse gases per kilowatt-hour of electricity as do coal-fired power plants. Alternative means of treating waste, such as recycling, composting and anaerobic digestion, reduce GHG emissions by approximately ten times as much as incineration. Such technologies avoid the methane releases associated with landfills and the toxic emissions of incinerators. According to the Intergovernmental Panel on Climate Change, “Increased composting of municipal waste can reduce waste management costs and emissions, while creating employment and other public health benefits.” Incinerators, however, poison the environment, human bodies, and the food supply with toxic chemicals, and produce toxic byproducts which require further treatment. Incinerators also undermine waste prevention measures and recycling, waste energy, and destroy vast quantities of resources. Economically, zero waste programs incorporating recycling and composting generate ten times as many jobs as incineration – at a fraction of the cost, without violating the principles of environmental justice. For more information, see: <http://www.no-burn.org/article.php?list=type&type=75>

## **8) Alternative transportation**

We support enhanced financial terms for hybrid, plug-in hybrid, and battery-powered electric vehicles (HEVs, PHEVs and EVs). Increasingly sophisticated and cost-competitive technologies are rapidly advancing the growth in sales of these vehicles, and can benefit from enhanced financial terms. In developing countries, PHEVs and EVs could help completely bypass the petroleum and gasoline infrastructure that characterizes transportation planning in the developed world, reducing global dependence on oil. Millions of hybrids have been sold in the US and Japan, and fleets of PHEVs and EVs have been successfully deployed in various municipalities in the US and Europe. Both EVs and PHEVs have proven to be successful for individual consumers as well as for government and corporate fleets, particularly in California and in Norway.

These technologies require different infrastructure than gasoline-consuming internal combustion engines, such as increased plug-in access and battery exchange facilities, and many of these systems are being designed. Plug-in vehicle infrastructure is a particularly attractive option in regions that do not yet have a fully developed petroleum and gasoline infrastructure. There are also additional costs for vehicle development. However, current costs for hybrids, PHEVs and EVs are viewed by many automakers as being competitive with internal combustion engine vehicles, making the vehicle technologies ideal candidates for enhanced financing terms. ECA support in this sector could be strengthened through enhanced financing for exports of products and services from this growing sector. Each of the differing products and services in this sector face different kinds of financing needs, and the Participants should agree to allow export credit agencies to have flexibility in the kinds of financial products that they provide, in addition to enhanced terms over conventional vehicles. For more information, see Plug In America, <http://www.pluginamerica.org/links-and-resources/links-and-resources.html>

## **9) Maritime and aviation transportation**

According to the European Federation for Transportation and Environment, greenhouse gas emissions from international aviation and shipping fuels account for nearly 10% of the climate problem, and are growing so rapidly that they could double or triple by 2050. The Kyoto Protocol charged the International Civil Aviation Organization (ICAO) and the International Maritime Organization (IMO) with capping or reducing carbon emissions from international aviation and maritime transportation; however, in the 15 years since, the ICAO and IMO have failed to agree on a single binding measure to control international aviation or shipping emissions. Similarly, export credit agencies have avoided their responsibility to report and curtail CO<sub>2</sub> emissions that are directly attributable to the aircraft and ships that they finance. Meanwhile, some environmentally superior technologies are emerging in both sectors, and could benefit from enhanced financing terms. In this second stage of negotiations, Participants should agree to a placeholder for enhanced financial support for environmentally superior maritime and aviation technologies and practices, to be more fully developed at a third stage of negotiations. Also, the Participants should agree to curtail financing for the aviation and

maritime sectors pending concrete and measurable actions by ICAO and IMO to cap and reduce greenhouse gas emissions.

#### **10) Renewable energy, nuclear power, water projects**

We believe that enhanced financial terms for renewable energy could be crafted to increase support for this important sector in ways that combat climate change, generate sustainable jobs, benefit exporting and host countries, communities and the local environment, and prevent odious debt. However, in the absence of the public disclosure of proposals from Participants, we were not in a position to support the June 2009 negotiations. We support the 11 June 2009 letter to the Participants by twelve NGOs which opposes the extension of favorable financial terms for nuclear power plants, as it unjustly heaps additional public financial benefits on an already heavily-subsidized sector that is extremely dangerous, financially unsound, and a false solution to climate change. We reiterate concerns stated in the 27 May 2005 ECA-Watch letter which opposes preferential terms for large hydroelectric dam projects because of their harmful and often irreversible social and environmental (including greenhouse gas emission) impacts, along with the fact that these projects are ultimately not renewable. Ironically, the subsequent Sector Understanding on Export Credits, Renewable Energies and Water Projects resulted in preferential terms being extended to environmentally and socially disastrous projects, such as the Iisu dam in Turkey. Large hydropower projects are incongruous with the environmental purpose of this Sector.

Finally, we understand that other water projects related to sanitation and provision may be considered for enhanced financing. While we strongly support the provision of clean water for public and residential use, we have significant concerns over the privatization of water services, which can reduce access. For example, in the well-known case of Cochabamba, Bolivia, Bechtel planned to raise rates so high that poor families would have to spend up to a quarter of their income for water. (The company was ultimately ousted from the country.) In other countries where citizens do not have access to safe and potable water, the proliferation of bottled drinking water ultimately delays much-needed investments by public water utilities to provide universal access. Water is a public resource that should be publicly controlled; preferential finance should be reserved for public water utilities and for exports such as those relating to water efficiency.

#### **11) Transparent, publicly accountable process**

We are deeply disappointed to see that in June, 2009 the Participants negotiated the Sector Understandings on Renewable Energy and Water Projects, and on Nuclear Power Plants, and yet there was absolutely no public disclosure of proposals or solicitation of public input from NGOs and civil society on the appropriateness or adequacy of any proposals by almost any Participant country. Meanwhile, we are aware that industry groups have been consulted in some countries. The abject lack of public disclosure and solicitation of public input from civil society in these matters is unacceptable. It undermines the public credibility of the Participants to the Arrangement; reflects poorly on the Export Credit Group and the OECD and its member States; and delegitimizes the outcomes of the negotiations.