

Brussels, Tuesday 8 November 2011

Mr. Steve Tvardik  
Head, Export Credits Division  
Organization for Economic Cooperation and Development  
Paris, France

Dear Mr. Tvardik,

Thank you for the opportunity to provide comments on the Draft Sector Understanding for Renewable Energy, Climate Change Mitigation and Water Project (Draft Sector Understanding) of the Participants to the Arrangement on Officially Supported Export Credits (Participants).

Although we continue to engage with the Secretariat and the Participants in good faith, we are again compelled to question the lack of adequate consultation and transparency in the process of developing this Draft Sector Understanding. Although the Participants have been in negotiations over the Draft Sector Agreement for over a year, we have not been afforded an opportunity to comment on the Draft Sector Understanding until we received a copy around October 24, 2011. . The ECG remains one of most secretive bodies within the OECD and other international organizations, undermining the credibility of its proceedings.

Given the current disarray of the world trade system and the lack of clarity about future negotiations in the World Trade Organization, and the role that exports play in regional and global macroeconomic imbalances, ECA-Watch opposes in general terms the concession of better terms for exports apart from those cases and technologies when there is a well proven record of contribution to environmentally and socially sustainable development. We believe ECA support remains a subsidy to the private sector and as such has to be justified with public interest reasons.

We continue to endeavor to provide the Participants with our views. Our comments address the following aspects of the Draft Sector Understanding:

- Fossil Fuels
- Osmotic Power
- Energy Efficiency in Renewable Energy Projects
  
- Carbon Capture and Storage
- Hydro Power
- Water Projects
- Bio Energy
- Waste to Energy
- Hybrid Power Plants
- Combined Heat and Power
- District Heating and Cooling
- Repayment of Principal and Payment of Interest
- Local costs
- Repayment Terms
- Lack of Transparency
- Future Work

**Fossil Fuels:** As stated in the 26 March, 2010<sup>1</sup> ECA-Watch input concerning the Sector Understanding on Export Credits for Renewable Energies and Water Projects: If the Participants' intention is to do something good for the climate, *the best thing you can do is stop doing harm—and end your climate-damaging financing for fossil fuels.*

The largest G20 economies' ECAs are a frequent and substantial source of support for fossil fuel promotion, despite claims made by some ECAs to responsible climate change policies.<sup>2</sup> ECA financing for fossil fuel projects eclipses ECA financing of renewable energy and energy efficiency projects, cancelling out the Draft Sector Understanding's intended effect of "significantly contributing to climate change mitigation". This financing results in the growth of a sector that exacerbates the climate crisis, and that is too often associated with local environmental damage, human rights violations, corruption, inflation and debt.

As the Participants know, the G-20 has committed to phase out fossil fuel subsidies, and we believe this should include ECA financing. Continued ECA financing of fossil fuel projects sends a dangerous message to smaller economies that the Participants and their respective countries are willing to place greater burden on poorer countries to implement the G20 fossil fuel phase out mandate, since the larger economies will continue fossil fuel financing subsidies through ECAs while emphasizing the elimination of consumption subsidies which are more common in poorer countries.

ECA financing of fossil fuels also undermines their respective governments' efforts to provide credible climate change finance contributions in the context of the United Nations Framework Convention on Climate Change (UNFCCC). While some countries have begun to count their ECA financing for renewable energy towards their international climate finance commitments, a case will be made that ECA financing for fossil fuels must be *counted against* those same countries' alleged contributions.

Yet, rather than eliminate harmful financing for fossil fuels, the Participants created a 12% repayment period for fossil fuel power plants, versus the norm of 5% to 10% repayment period provided for most other industrial sectors.<sup>3</sup>

Moving forward, we call on the Participants and the Export Credit Group to:

- Publicly disclose all fossil fuel-related support disaggregated by sector (e.g., coal, oil, gas, liquid natural gas) as well as financing claimed to be related to climate change concerns (e.g., renewable energy, energy efficiency, carbon trading, carbon capture and storage, etc.);
- Commit to ending fossil fuel financing by an agreed date no later than 2013, and to annually and publicly report on the progress made towards this end.

**Osmotic Power:** We reiterate that potential environmental problems associated with large scale osmotic power include sharp fluctuations in salinity which, if occurring beyond background levels, can damage plant and animal communities. The world's first osmotic power plant only started operation in 2009 and its longer term environmental impacts are as yet unstudied. As stated in our previous communication on the issue, we would oppose the inclusion of such new and relatively untested technologies in the Sector Understanding.

**Energy Efficiency in Renewable Energies Projects:** The Draft Sector Understanding Annex 1 includes the phrase, "energy efficiency in renewable energy projects." This suggests that energy efficiency technologies that are not part of a renewable energy project are not supported. If this is the intent, it is undesirable, and we urge the Participants to support certain kinds of stand-alone energy efficiency technologies in the Draft Sector Understanding. In particular, we 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 utilized in 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 in 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 and speeds the transition to renewable energy and energy efficiency. Providing 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.

**Carbon Capture and Storage:** Carbon Capture and Storage (CCS) is wholly inappropriate for financing under this Sector Understanding. CCS is not proven to be technologically viable at scale, and even if it will eventually be proven, it is estimated to not be deployable at scale before 2030. CCS wastes energy, between 10% and 40% of energy produced at a power station, wiping out efficiency gains of the last 50 years. CCS is risky, with potential leakage resulting in great damage to climate, a risk that export credit agencies will never be able to address. CCS is also quite expensive, dramatically increasing the cost of power plants and electricity price, diverting financing away from real solutions to the climate crisis. CCS perpetuates the false hope that a new generation of fossil fuel power plants can be compatible with efforts to mitigate climate change.<sup>4</sup>

**Hydro Power:** We reiterate previous ECA-Watch inputs to the Export Credit Group and the Participants which state our opposition to preferential terms for large hydroelectric dam projects because of their harmful and often irreversible social and environmental impacts and the fact that these projects are ultimately not renewable. Ironically, the 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 Ilisu dam in Turkey. What's more, large hydro power projects are incongruous with the climate change-related purpose of this Sector. With regards to climate change mitigation, scientific studies increasingly indicate that dams and reservoirs are globally significant sources of the greenhouse gases carbon dioxide and, in particular, methane.<sup>5</sup> According to Brazil's National Institute for Space Research (INPE), dams and reservoirs are responsible for almost a quarter of all human-caused methane emissions. This 104 million tonnes of dam-created methane is responsible for 4-5 per cent of all human-caused warming. As the World Bank's Energy Sector Management Assistance Program and other expert bodies have pointed out, large, centralized hydropower projects are also less resilient to the vagaries of climate change than decentralized, diversified renewable energy options. Therefore, hydro power, *especially* large hydroelectric dam projects, should be excluded from any provisions aimed at mitigating climate change.

**Water Projects:** We reiterate the position stated in the 26 March, 2010 ECA-Watch input to the Participants with regard to the supply of water for human use and wastewater facilities. As we previously stated, we strongly support the provision of clean water for public and residential use, however, 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 been forced to spend up to a quarter of their income for water. Fortunately, 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.

**Bio-Energy:** We note that the Draft Sector Understanding includes Bio-Energy, which we understand to include agro-fuels. In our 26 March, 2010 ECA-Watch input, we opposed the inclusion of agro-fuels in the Sector Understanding because it is an increasingly maligned form of fuel with regard to their exaggerated and contested greenhouse gas reducing benefits and has many negative environmental and social impacts. While some biofuel feedstocks – such as certain species produced on a small scale – are acceptable, the greatest increase in the production and use of agro-fuels 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 the use of slavery and dangerous working conditions. In addition, large-scale agro-fuel 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 and agro-fuels 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 agro-fuel production results in the release of far more stored greenhouse gas emissions than are saved by the displacement of fossil fuels.

**Waste to Energy.** We note that the Draft Sector Understanding includes a new proposed category, Project Class B: Fossil Fuel Substitution, which includes Waste to Energy. As stated in previous inputs, we oppose enhanced financing terms for waste incineration because this technology has so many harmful side effects—including increasing rather than reducing carbon dioxide emissions. 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 greenhouse gas (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 waste energy, undermine waste prevention and recycling measures, and destroy vast quantities of resources. For these reasons, incinerators and landfills are classified under EU law as the least preferred waste management options. It makes no sense to provide subsidize incinerators when preferable options –recycling and composting—generate ten times as many jobs as incineration – at a fraction of the cost, and without violating the principles of environmental justice.

**ECA-Watch opposes enhanced financing terms for waste incineration, including biomass power, preferring the inclusion of zero waste programs in the Draft Sector Understanding.**<sup>6</sup>

**Hybrid Power Projects:** The Draft Sector Understanding Project Class B: Fossil Fuel Substitution includes hybrid power projects. The rationale for addition of hybrid fuel projects includes that these projects purportedly achieve a significant carbon reduction compared to standard fossil fuel plants. However, this is only true for the renewable energy side of hybrid power projects. The fossil fuel side of hybrid projects created just as much greenhouse gas and other emissions as any other fossil fuel power project that is combusting the same volume and type of fuel. Whether operating as a hybrid, or separate, the net result is the same. Therefore, irrespective of whether projects are hybrid or not,

ECA-Watch does not support inclusion of fossil fuel projects (or elements of projects), and does support inclusion of appropriate renewable energy projects in the Draft Sector Understanding.

**Combined Heat and Power:** The Draft Sector Understanding Project Class C: Energy Efficiency includes combined heat and power projects. Combined heat and power projects can achieve significant energy efficiencies through use of heat that is otherwise wasted. However, the underlying power source can be fossil fuels, biomass, solar thermal. ECA-Watch supports combined heat and power from appropriate renewable energy sources, however, as otherwise stated in this submission, we seek a phase out of ECA support for fossil fuel power.

**District Heating and Cooling:** District heating and cooling can achieve some very significant energy efficiencies and therefore a reduction of fuel combustion and less associated greenhouse gas emissions. District heating can be achieved through a process of cogeneration which can be conducted with a variety of power sources including fossil fuel, biomass, geothermal, solar and nuclear. ECA-Watch supports district heating and cooling system distribution infrastructure, however we differentiate between our support for associated power generation by renewable energy and geothermal and our opposition to fossil fuel power generation sources.

**Repayment Terms:** We believe that repayment terms for renewable energy and energy efficiency technologies that are appropriate for enhanced support (which are identified elsewhere in this submission) should extend beyond 18 years. Providing this extension will further advance the use of these technologies, while creating a more level playing field with non-Participant countries that provide more generous support in this area. Failure to do will perpetuate trade disputes between countries, which results in reduced financial enhancements for renewable energy and energy efficiency, in turn diminishing incentives to transition away from fossil fuels and deepening the global climate crisis.

Meanwhile, the Draft Sector Understanding contains varying repayment terms of 15 to 18 years, but gives no rationalization for this range. It is extremely troubling to see that technologically and financially unproved schemes that are intended primarily to perpetuate continued burning of fossil fuels, such as Carbon Capture and Storage, are given greater repayment terms (18 years) than technologically and financially proven end-use energy efficiency technologies, such as district heating and cooling that reduce the need for fossil fuels (15 years).

**Scope of Application:** The Draft Sector Understanding Section 2, Scope of Application for Projects in Climate Change Mitigation, defines the scope of application, *inter alia*, as projects that “should result in low to zero carbon emissions, or CO2 equivalent, and/or in high energy efficiency.” The qualifier “should” is concerning, indicating that the Draft Sector Understanding is non-binding. Moreover, the terms “low” and “high” are not defined, leaving further opportunity for abuse of discretion.

**Repayment of Principal and Payment of Interest:** This section includes a provision stating that “[n]o single repayment of principal or series of principal payments within a six-month period shall exceed 25% of the principal sum of the credit.” We would like to reiterate our inquiry as to the purpose of this provision and question its consistency with policy commitments to reduce developing country debt. Meanwhile, we question the adequacy of the schedule of minimum interest rates for the same reason.

**Local costs:** In order to support deals with higher participation of developing country actors, local costs should be allowed to go beyond 30% of the export contract value.

**Transparency:** The Draft Sector Understanding contains requirements for notification and reporting, however there are no requirements for any public disclosure of these notifications and reports. In so

doing, the Draft Sector Understanding perpetuates the secrecy that continues to undercut the legitimacy of the work of the Participants.

**Future Work:** We appreciate that the Draft Sector Understanding includes a section on future work, which reflects agreement by the Participants to look at additional issues in the next twelve months, including such technologies as net zero energy buildings (which could be desirable) and CCS-Ready (which is technologically and financially unproved at any significant scale). We continue to urge the Secretariat to regularly update stakeholders on progress and to conduct adequate consultation with civil society organizations, including disclosure of draft Sector Understanding amendments, at least 30 days prior to final negotiations.

Thank you for the opportunity to comment on the Draft Sector Understanding for Renewable Energy, Climate Change Mitigation and Water Project.

<sup>1</sup> ECA-Watch letter to Mr. Steve Tvardik, Head, Export Credits Division Organization for Economic Cooperation and Development concerning the on-going review of the Sector Understanding on Export Credits for Renewable Energies and Water Projects, 26 March, 2010

<sup>2</sup> For example, the U.S. Export-Import Bank (Ex-Im Bank) states that it is the only ECA with a climate change policy—one that the agency hopes other ECAs will emulate. Yet, Ex-Im Bank's climate change policy has failed to curb the agency's growing portfolio of fossil fuel projects. For example, in fiscal year 2010 Ex-Im Bank provided \$4.5 billion in financing for fossil fuel projects, more than ten times what the agency provided that year for renewable energy.

<sup>3</sup> Sections 12-13, Repayment Terms for Non-Nuclear Power Plants, Arrangement on Officially Supported Export Credits, Trade and Agriculture Directorate, Organization for Economic Cooperation and Development, 30 August, 2011.

<sup>4</sup> False Hope, Why Carbon Capture and Storage Won't Save the Planet, Greenpeace, May 5, 2008, available at <http://www.greenpeace.org/international/en/publications/reports/false-hope/>

<sup>5</sup> See for instance the report by International Rivers "Loosening the Hydro Industry's Grip on Reservoir Greenhouse Gas Emissions Research," <http://www.internationalrivers.org/files/FizzyScience2006.pdf>

<sup>6</sup> For more information, see <http://www.no-burn.org/article.php?list=type&type=85>