

Briefing Note

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Export Credit Agencies and Climate Change - a briefing for Cancun

After the collapse of UN Framework Convention on Climate Change (UNFCCC) talks in Copenhagen in December 2009, the future financial architecture for funding climate change mitigation and adaptation continues to be fiercely debated. At the 2010 climate summit in Cancun, Mexico, the issue will again be on the table for negotiation. The role of public and private finance will be considered, and thus the role of Export Credit Agencies (ECAs), which sit at the nexus of public and private finance, may become increasingly important. Many ECAs support billions of dollars worth of exports to fossil-fuel projects which emit greenhouse gases. ECA financing for fossil fuels also eclipses ECA financing for climate-friendly technologies.

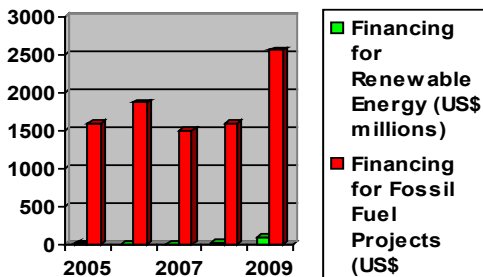
This briefing outlines the negative impact of ECA fossil fuel financing. The paper also raises the question of whether ECAs have a role to play in contributing to “climate finance.” “Climate finance” is defined here as payments by developed countries (in the form of grants or equivalent) that are additional to Official Development Assistance (ODA) and that are made to fund developing countries’ climate change mitigation and adaptation needs.

Export Credit Agencies (ECAs) are governmental or quasi-governmental departments that use taxpayers’ money to help companies invest and export overseas. ECAs typically provide financial backing in the form of guarantees, insurance or direct loans. Their purpose is to protect companies against the commercial and political risks of not being paid while operating abroad. ECAs underwrite ten per cent of global exports from large industrial countries. The ECA-Watch Campaign works to achieve binding environmental, social and human rights guidelines for ECAs. For more information, see www.eca-watch.org.



Export credits: subsidies for fossil fuels

Collectively, ECAs provide among the largest sources of public financing for fossil fuel projects in the world today, a sum which is estimated to rival or exceed financing for these activities by all multilateral finance institutions combined. Meanwhile, ECAs provide a much smaller volume of financing for renewable energy. As an example, the following charts show US Export-Import Bank (Ex-Im Bank) financing for fossil fuel projects and renewable energy transactions between fiscal years 2005 and 2009.



Recent examples of ECA fossil fuel financing include US Ex-Im Bank's support for the 3,960 Megawatt (MW) Sasan ultra-mega coal power project (UMPP) in India; and the German ECA Euler Hermes, the French ECA COFACE, and potentially Ex-Im Bank's financing for the 4,800 MW Kusile coal power project in South Africa. If constructed, Sasan and Kusile would be among the world's largest coal power projects, emitting a combined total of 56.9 million tonnes of CO₂ annually, plus extensive pollution to local water and air.

In the Middle East, the Saudi Aramco Total Refining and Petrochemical Company's (Satorp) export refinery project in Jubail will potentially benefit from US\$2 billion of support from the ECAs of Korea, France, Spain, Italy and Germany. European ECAs are currently involved in many other carbon-intensive projects. For example, in June 2009, the Italian ECA, SACE, participated in the US\$1.75 million debt financing of the Gdansk refinery of Grupa Lotos, Poland, and is now considering support for the Yanbu refinery project in Saudi Arabia, as well as the Galsi pipeline project, an 837 km-long natural-gas pipeline across the Mediterranean from Algeria to Italy via Sardinia. In 2010, COFACE, approved guarantees for the Medupi coal power plant in South Africa (in addition to the aforementioned Kusile coal power plant).

ECA financing of fossil fuels undermines the efforts of their parent national governments to provide credible climate finance contributions in the context of the Copenhagen Accord and the longer-term financial mechanisms and cooperative action of the UNFCCC. While debates ensue regarding whether or how ECA financing for climate change mitigation can be counted within the evolving UNFCCC process, a case

can be made that ECA financing for fossil fuels must be counted against those same countries' alleged contributions to climate change finance.

In 2009, the G20 committed to phase out inefficient fossil fuel subsidies, and ECA-Watch believes ECA fossil fuel financing should be on the list of subsidies to be eliminated. The largest G20 economies use ECAs as a frequent and substantial source of support for their fossil fuel industries. Meanwhile, subsidies for the consumption of fossil fuels are more common in less wealthy countries. Continued ECA financing of fossil fuel projects by larger countries risks sending a dangerous message to developing economies that fulfillment of the G20 subsidies mandate will be borne disproportionately by these less wealthy countries through the elimination of their consumption subsidies, but the continuation of wealthy countries' ECA support.¹

Despite ECAs' promotion of their role in financing climate change mitigation technologies, they have made little efforts to curb their far larger financing for fossil fuel projects. A recent proposal at the G20 in Seoul,² which would combine enhanced financing terms for renewable energy and energy efficiency with less generous terms for high intensity fossil fuel projects, failed to win approval. Meanwhile, most ECAs do not disclose their portfolio of fossil fuel projects and associated greenhouse gas emissions. The US Ex-Im Bank discloses estimates of direct emissions for large fossil fuel projects, but fails to calculate indirect (life cycle) emissions, which can sometimes be much greater.³ US Ex-Im Bank is apparently the only ECA with a climate change policy (which it was forced to adopt following a lawsuit by environmental groups), yet this policy has failed to curb the agency's skyrocketing financing of fossil fuel projects.

In conclusion, ECA fossil fuel financing worsens the global climate change crisis, undercuts important initiatives at the UNFCCC and G20, and sends a signal that ECAs' respective countries seek to place a greater burden on smaller countries to address climate change. ECA financing for fossil fuels should be documented, disclosed and counted against their respective country's claimed contribution to climate change financing—and most of all, ECA fossil fuel financing must be halted.

Export credits and the fight against climate change

Some governments increasingly view ECAs as a key public-private interface to leverage private sector financing for other long-term investments—in particular in emerging economies and middle income countries, where many ECA transactions occur. Therefore, despite there still being outstanding questions about ECAs' role in developing countries, ECAs are viewed by some parties as mechanisms that could support a shift to low-carbon pathways in these countries.



The notion that ECAs have something to contribute to the fight against climate change has emerged in the recent ECA negotiations held at the Organisation for Economic Cooperation and Development (OECD). For example, in June 2009, a cartel of wealthy countries with ECAs, called the *Participants to the Arrangement on Officially Supported Export Credits* (Participants), met at the OECD to negotiate the Sector Understanding on Export Credits for Renewable Energies and Water Projects (Sector Understanding). This Sector Understanding includes enhanced financing terms for renewable energy and hydroelectric power.⁴ ECA-Watch supports enhanced financial terms for appropriate renewable energy and downstream, end use, energy efficient projects, goods and services, but opposes enhanced financing terms for large hydro and nuclear power plants due to the negative environmental, social, financial and economic side effects of these sectors.

Subsequently, the Participants have been negotiating revisions to existing "Sector Understandings" that would extend enhanced financing terms to a variety of highly controversial and dubious technologies—potentially including waste incineration, carbon capture and storage-ready, so called "clean-coal," and other schemes promoted by companies from ECAs' respective countries.⁵

ECA-Watch is opposed to enhanced financing terms for many of these technologies, which the network considers to be false solutions to climate change for environmental, social, technical and financial reasons.⁶

Because ECAs have expertise in evaluating project risks and experience in political and commercial risk coverage, they have the potential to develop new financial products related to carbon trading. In 2006, a United Nations Environment Programme (UNEP) workshop was organised on the environment and export credits, at which the Austrian ECA, OeKB, discussed its involvement in carbon trading with a joint-implementation hydropower project in Bulgaria; OeKB also offers a CO₂ emissions trading service. EKF, the Danish ECA is already offering carbon trading products — presenting them as a specific and new line of business. Yet carbon trading remains highly controversial. ECA-Watch and many others see it as a dangerous distraction and a false solution to the problem of climate change. For more information see: www.fern.org/tradingcarbon

Meanwhile, ECAs in the global North support the export to developing countries of technologies that are typically protected by licenses and patents, so, in the case of renewable energy and energy efficiency technologies, developing countries are not encouraged to develop their own low carbon industry in a sustainable way without creating new dependencies on the global North. Furthermore, the implementation of the Sector Understanding has produced limited success in fostering

renewable energy exports, which face other problems and constraints – for example, the lack of favourable national legislation for renewable energy in developing countries, e.g. feed-in tariffs – which ECAs cannot help to solve.

Export credits and climate finance

In Copenhagen, a handful of governments agreed to the Copenhagen Accord, which calls for developed countries to raise US\$30 billion for developing countries in so-called "fast start" climate finance up to 2012, and in addition to raise US\$100 billion a year by 2020. The US and Japanese governments have also earmarked some ECA support as "climate finance". Japan pledged US\$15 billion in total for its fast start finance commitment, with US\$7.2 billion from Official ODA and US\$7.8 billion from other official financing in collaboration with the private sector. This other official financing will be channeled through the Japanese ECA, the Japan Bank for International Cooperation (JBIC), the Nippon Export and Investment Insurance (NEXI) support for counter-risk measures, and likely the Japanese private sector as well.⁷

The US has announced that its contribution to fast start financing in 2010 is a total of US\$1.7 billion, consisting of US\$1.3 billion of Congressionally-appropriated assistance and US\$400 million of development finance and export credit. They stated that its development finance and ECA provide "financial instruments that help American firms and investors, with their foreign partners, deploy clean energy technologies in and exports to developing countries."⁸

Many countries and civil society organisations oppose export credits being defined as "climate finance". They point out that ECAs provide largely non-concessionary financing which the importing country or company, must ultimately pay for, precluding this kind of funding from being a grant or concessionary loan to developing countries. As a result, export credits do not meet the criteria agreed within the UN climate negotiations that climate finance must constitute "new and additional" funds, thus limiting it to official government support (grants or equivalent) and concessionary funding—rather than financing at or near market rates.

ECA-Watch supports the view that it is highly inappropriate for ECA financing to be counted towards climate finance for several reasons.

First, developing countries face serious consequences from the impacts of climate change, yet most have not contributed to the bulk of global anthropogenic greenhouse gas emissions. Climate finance should therefore be in the form of grants or the equivalent and be additional to ODA expenses.



Second, ECA financing increases the risk of debt distress in poor countries, which should benefit from the financial transfers needed to adapt and mitigate the impacts of climate change without incurring debt.

Third, ECAs lack transparency and accountability to the public and are therefore inappropriate vehicles for delivering climate finance. ECA Watch notes that there is already considerable controversy over the governance of emerging climate finance schemes, and whether climate finance funds will be managed in a way that is democratic, accountable and transparent. Many developing countries and civil society organisations oppose climate funds being placed under the aegis of the World Bank, for example, preferring the funds to be managed under the auspices of the UNFCCC, which they view as being more accountable than the World Bank Group. ECAs disclose less project information than the World Bank Group, provide fewer opportunities for redress by project-affected people and are less open to public participation in decision-making. ECAs decide unilaterally on the provision of finance, and have no oversight by the UNFCCC. Moreover, ECAs exist to support the interests of exporting countries and companies, and have no mandate to support the interests of developing countries.

Recommendations

ECA fossil fuel financing worsens the global climate change crisis, undercuts important initiatives at the UNFCCC and G20, and sends a signal that ECAs' respective countries seek to place a greater burden on smaller countries to address climate change. To end these contradictions — and the damage to the climate caused by ECA financing — ECAs should:

A. Commit to ending fossil fuel financing by an agreed date no later than 2013, and to reporting annually and publicly on the progress made towards this end.

B. Include ECA financing for fossil fuels on the list of subsidies slated for elimination by the G20.

C. Publicly disclose all fossil fuel-related support. These should be disaggregated by sector (e.g. coal, oil, gas and liquid natural gas), as should reporting of financing claiming to have beneficial impacts on climate change concerns (e.g. renewable energy, energy efficiency, carbon trading, and carbon capture and storage).

D. Set up a transparent mechanism for counting greenhouse gas emissions related to ECA portfolios as well as for evaluating the carbon footprint of the projects that ECAs want to finance.

E. ECA financing should not count as climate finance: this should mainly be provided in grants and equivalent, through the existing funds already established in the UNFCCC framework.

F. Stop promoting the expansion of the carbon market and carbon derivative trading, which risks creating another subprime carbon bubble.⁹

G. Play a role in supporting a shift to low carbon technologies. However this approach should not exempt countries in the global North from drastically reducing their own internal emissions. Export credit support for whatever ECAs decide to include under a revised Sector Understanding should be excluded from climate finance, and ECA fossil fuel financing should count against an ECAs' respective government's climate finance commitment.

End Notes

1. See ECA-Watch letter to G20 at http://www.eca-watch.org/problems/fora/G20/ECAW_letter_to_G20_re_fossil_fuel_subsidies_22jan10.pdf

2. See ECA-Watch press release "Hope that G20 will close loophole and end all fossil fuel subsidies" at: <http://www.fern.org/sites/fern.org/files/ECA%20Watch%20G20%20press%20release.pdf>

3. For example, estimates of direct emissions from fossil fuel extraction do not include emissions from the ultimate downstream combustion of the fossil fuel.

4. Technologies supported under this Sector Understanding include wind energy, geothermal energy, tidal and tidal stream power, wave power, solar photovoltaic power, solar thermal energy, ocean thermal energy, bio-energy, projects related to the supply of water for human use and wastewater treatment facilities, wastewater collection and treatment facilities, hydro power, and energy efficiency in renewable energies projects. A separate Sector Understanding was negotiated to provide enhanced financing terms for nuclear power.

5. These negotiations are closed to the public and a comprehensive list of technologies under consideration has not been publicly disclosed.

6. Enhanced Export Credit Agency Financing Terms in Response to Climate Change, ECA-Watch Input to the Arrangement on Officially Supported Export Credits, available at http://www.eca-watch.org/problems/fora/occd/Policy_Coherence/Enhanced_ECA_Financing_Climate_Terms%20_17sep09.pdf

7. http://pdf.wri.org/climate_finance_pledges_2010-10-02.pdf

8. Fast Start Finance Initiative, Contributing Countries, United States, available at http://www.faststartfinance.org/contributing_country/united-states

US State Department Fact Sheet: FY 2011 Budget for International Climate Change Financing, available at <http://www.usclimatenetwork.org/resource-database/resource-database/fy-2011-summary-of-core-climate-assistance-budget>

9. For more information : Trading carbon: how it works and why it is controversial, <http://www.fern.org/tradingcarbon>

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