

**FOOL'S GOLD:**

**HOW THE PLANET PAYS THE PRICE FOR  
EUROPE'S EXPORT CREDITS**

June 2010



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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 10 per cent of global exports from large industrial countries. The European ECA Reform Campaign works to achieve binding environmental, social and human rights guidelines for ECAs.

## Executive Summary

The Export Credit Agencies (ECAs) of the EU Member States are undermining the EU's climate objectives, by providing billions of dollars worth of support for, on the one hand, highly carbon-intensive projects and, on the other hand, environmental solutions that offer little or nothing to the fight against climate change. The EU has committed to cutting its emissions to at least 20 per cent below 1990 levels while paradoxically, EU ECAs are increasing their support for fossil-fuel industries.

To illustrate their appetite for carbon-intensive business this report highlights some of the most controversial agreements ECAs have recently signed, as well as giving estimated figures of EU export credit guarantees to carbon intensive projects over the past six years. It shows that from 2000–2003 support to renewable energy projects was less than one per cent of the total support from most ECAs.

The report concludes that what is needed is economic and social change. Large-scale technological solutions and techno-fixes like carbon capture and storage easily detract from addressing the real challenge of climate change: reducing our energy demands. The report examines ECAs' involvement in some of the dubious activities that are being promoted in the light of climate change:

- The European Union's Emissions Trading Scheme (EU ETS): the world's largest carbon trading scheme. Some ECAs are developing new financial products related to carbon trading and already offer specific products such as a CO2 Emissions Trading service.
- Nuclear energy: in the context of climate change, nuclear energy is experiencing a 'renaissance' with the nuclear option being back in the energy debate.
- Carbon Capture and Storage (CCS): the main technology being promoted by the coal industry, it allows the continuation of coal burning, but with the carbon emissions captured and buried under the ground. Even though it has not, to date, been possible to capture and store all CO2 generated in the process, ECAs are already looking at this type of project.

- Biomass: using an energy source relating to the burning of wood on an industrial scale for direct use as heat or to generate electricity.
- Large-scale dams: despite the major negative social and environmental impacts of many dams, and their often significant greenhouse gas emissions' they are presented as a renewable source of energy.

Although the EU emphasises the importance of reducing carbon emissions in developing countries, ECA financing favours exports and investments that disproportionately benefit carbon intensive industries. Through their financing, ECAs play an important role in influencing the decisions that are made in these sectors. They are therefore in a position to significantly contribute to a transition to low-carbon economies, leveraging much-needed investment in energy efficiency. They are also in a position to influence the behaviour of their clients by setting stronger standards. However they have not yet decided to exercise their influence in this way — and instead of helping trigger the change to low carbon economies they keep financing the sunset industries, which not only is a waste of resources but also sets developing country economies down the wrong path. This position will become increasingly unacceptable as the climate crisis worsens and political leaders are called upon, with increasing urgency, to direct resources to mitigate against the problems.

## Introduction

The European Union (EU) has declared itself a leader in the fight against climate change, promising to limit global temperature rises to two degrees Celsius. Yet perversely, the Export Credit Agencies (ECAs) of the EU Member States, below the radar of public scrutiny, are undermining these climate objectives, by providing billions of dollars-worth of support for, on the one hand, fossil fuel extraction and carbon-intensive projects and, on the other hand, supposed environmental solutions that in fact offer little or nothing in the fight against climate change.

In this report we explore the history of ECAs support for carbon intensive projects and false solutions such as carbon capture and storage, carbon trading and nuclear power. Then we outline recommendations for how ECAs can begin to support rather than undermine the EU's objective to keep global warming within two degrees.

### **BOX 1: THE IMPORTANCE OF ECAS IN WORLWIDE TRADE FLOWS**

In 2007, ECA-approved loans, loan guarantees and insurance covered at least 10 per cent of world trade (and a greater proportion in developing countries), which represents about US\$1.4 trillion in international trade and investment transactions.<sup>1</sup> Although most ECA financial support goes to short-term trade finance (i.e. credit terms up to 12 months), a significant portion (around US\$140 billion in 2008)<sup>2</sup> goes to longer-term guarantees (i.e. credit terms above 12 months), often in support of large-project finance in developing countries and economies in transition.

## Background

Outside a few specialised circles, little is known about ECAs. Despite being created by governments to act on behalf of the state, their activities receive very little public scrutiny. The worldwide growth in private capital flows over the last decade has increased the demand for project financing, risk guarantees, and insurance by ECAs. In the context of the systemic financial crisis faced by the world's economies since 2008, ECAs have become even more important.<sup>3</sup> One of the main impacts of the global financial crisis was the failure of private markets to meet the demand of trade finance, in particular as banks have concentrated their lending on more profitable and less risky sectors. As a consequence, governments all over the world have been pledging extra support for official export credits to stimulate economic development through export promotion. While commercial, market-based export credit insurance companies have been withdrawing cover for thousands of companies, ECAs have been doing the opposite.

It is important to highlight that ECAs exert a powerful leveraging effect. Because they reduce risk, it is said that every dollar of ECA financing draws in more than two dollars of private capital.<sup>4</sup> Therefore, when providing export credit guarantees and thus lowering the risk of private lending, ECAs support the expansion of specific industry sectors by providing easier access to commercial financing and insurance. This includes sectors such as aircraft manufacturing and oil and gas, most of which are carbon-intensive. ECAs are mandated to support projects that the private sector is reluctant to finance. In recent years however, commercial investment banks have entered the emerging markets where most ECA lending has been concentrated.<sup>5</sup> This brings into question the legitimacy of ECAs continued emphasis on these emerging markets; even more so when ECA funding is being used, as we will later show, to enable investment in projects with negative environmental or social impacts.

About three quarters of the anthropogenic emissions of carbon dioxide (CO<sub>2</sub>) to the atmosphere during the past 20 years has been due to fossil-fuel burning. Fossil fuel CO<sub>2</sub> emissions will remain, according to the Intergovernmental Panel on Climate Change (IPCC), the dominant factor in atmospheric CO<sub>2</sub> concentration during this century.<sup>6</sup> The EU has committed to cutting its emissions to at least 20 per cent below 1990 levels and to increase the share of renewable energy to 20 per cent — both by 2020, while EU based ECAs are increasing their support for fossil-fuel industries.

According to the International Energy Agency (IEA), the total investment required to avoid dangerous climate change is more than US\$1 trillion per annum. In this context, public financial support to commercial operations should be bound by very strict standards and guidelines, to ensure this support does not increase climate change.

Most ECAs have a purely commercial mandate: trade and finance policies are set without reference to environmental or development policies and objectives. As a result, the majority of ECAs argue that environmental, human rights or sustainable development concerns fall outside their defined competencies,<sup>7</sup> are limited to export promotion. Only, in a few cases, such as the UK's Export Credits Guarantee Department (ECGD) and the United States' Overseas Private Investment Corporation (OPIC), do ECAs' mandates include promotion of sustainable development. Nevertheless, actual practice by these agencies contravenes such mandates.<sup>8</sup>

In 2007, the European Parliament realised the problem and passed a resolution<sup>9</sup> on trade and climate change calling for "*the discontinuation of public support, via export credit agencies and public investment banks, for fossil fuel projects*". The resolution asked the European Commission and EU governments to propose legislative instruments to force ECAs and the European Investment Bank (EIB) to "*take account of the climate change implications of the funded projects*" and to "*impose a moratorium on funding until sufficient data are available*".

## ECA Addiction To Carbon-Intensive Industries

ECAs are a major source of international public finance in all sectors that have major implications for climate change, especially fossil fuel projects. ECAs also play an essential role in the financing of “mega-projects” — very large-scale, high-investment infrastructure projects. In response to the dramatic roll back in international banks’ lending in the light of the global financial crisis, the use of ECAs in project finance became vital across the globe, and is expected to remain so for the near future.<sup>10</sup> Roughly half of recent new ECA commitments have been for project financing of carbon-intensive projects.<sup>11</sup> Moreover, because these projects contain a high proportion of fixed capital investment, they will remain in place for the longer term, some of them for decades.



**The Baku-Tbilisi-Ceyhan (BTC) oil pipeline** in the Caspian region runs over 1,700 km from Baku, Azerbaijan through Georgia to the Mediterranean port of Ceyhan in Turkey.

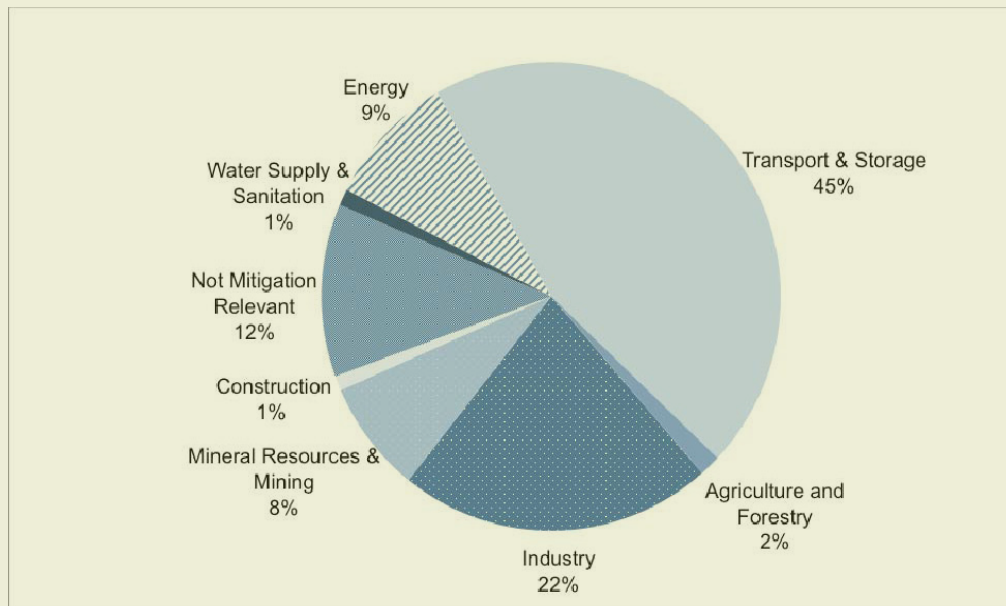
Pipeline to transport Azerbaijani oil to the European markets. Image: @aliyev-heritage.org

In a report of May 2000, the World Resources Institute found that from 1994 through 1999, three fifths of project and trade finance going to developing countries supported energy-intensive projects such as: fossil-fuel power plants; oil and gas development; manufacturing (iron and steel, pulp and paper, chemicals); transportation infrastructure; and the aviation industry.<sup>12</sup> Fossil-fuel power plants and oil and gas development represented 40 per cent of all financing destined to these countries. In terms of key players, the research showed that the main financiers of carbon-intensive industries were Ex-Im Bank (USA), COFACE (France), Hermes (Germany), ECGD (UK) and JEXIM (Japan).

In their study, "Foreclosing the Future, Coal, Climate and Public International Finance", the Environmental Defence Fund states that over a third of the ECAs' medium- and long-term loans and guarantees go to climate-sensitive sectors like power, industry, mining and infrastructure. The study shows that since 1994, Japan's export credit agency, JBIC, and the public foreign investment insurance agency, NEXI, provided over US\$10 billion (from an identified total of US\$37 billion) in public international financing to some 88 new coal plants and expansions. The ECAs of the United States and Germany are, along with Japan, the greatest providers of support to the coal industry.

Also worthy of note is the impressive level of support given by ECAs to the aviation industry. In 2009, ECAs guaranteed circa US\$20 billion-worth of Airbus and Boeing aircraft production, outstripping figures for previous years.<sup>13</sup> If we look at the reported guarantees by France's COFACE during 2001-2008, the transport sector represents about two thirds of its portfolio, half being guarantees to the aviation industry. In fact, Airbus alone represents more than a third of all COFACE guarantees.<sup>14</sup> Similarly, the UK's ECGD guaranteed around US\$2.44 billion in 2009 and forecasts that it will support around 30 per cent of Airbus sales in 2010.<sup>15</sup>

**FIGURE 1. Official Long Term Export Credits by Sector (2002-2008): 31.2 billion US\$/year (average)**



Source: OECD statistics on export credits, 2009.

A more detailed examination of EU ECAs' funding in 2009 shows that, despite EU commitments to ensure climate change remains below two degrees, their appetite for carbon-intensive business is undiminished. Two recent agreements, amongst the largest ever seen in project finance, illustrate this point.

The first, located in the Middle East, is the Saudi Aramco Total Refining and Petrochemical Company's (Satorp) export refinery project in Jubail. It will benefit from a substantial US\$2 billion input from ECAs, possible agencies being from Korea, France, Spain, Italy and Germany.<sup>16</sup> Italian agency SACE has already provided guarantees of US\$500 million.

The second, located in Northern Europe, is phase one of the Nord Stream gas pipeline: two parallel pipelines connecting Russia with Germany via the Baltic Sea. Costing €5.5 billion, it has been designated an EU priority project within the Trans-European Energy Networks (TEN-E) programme, and is described as key to Europe's energy security. It is expected to use a loan facility of up to €3.1 billion, covered by the guarantee programmes of German (Hermes) and Italian (SACE) ECAs.<sup>17</sup> It has already secured SACE's approval and according to Project Finance International, Hermes is also said to be committed to the scheme.

Aside from these two project finance agreements, European ECAs are currently involved in many other carbon-intensive projects. We can outline among others that SACE participated, in June 2009, in the US\$1.75 million debt financing of the Gdansk refinery of Grupa Lotos in Poland. There is a further refinery project which SACE is considering in Saudi Arabia: the Yanbu project. SACE is also considering the Galsi pipeline project: an 837 km-long natural-gas pipeline across the Mediterranean from Algeria to Italy via Sardinia.

Meanwhile France's COFACE, in collaboration with the Belgian ECA OND, has signed up for Sibur's and Solvin's chlor-alkali and PVC complex (known as Rus Vinyl) at Kstovo in Russia. COFACE has also agreed the US\$4 billion Yemen LNG scheme, of which it has underwritten US\$423 million. Moreover in 2010 it has already approved guarantees for two coal-powered plants in South Africa — Medupi and Kusile — and is currently considering financing the Bokaro Steel Plant in India.

The consultancy agency Profundo conducted research on behalf of FERN on the involvement of ECAs in the financing of carbon-intensive industries,<sup>18</sup> focusing on all 21 ECAs in EU Member Countries and on guarantees provided in the past six years (2004–2009). The research was hampered by most European ECA's lack of transparency about their total volume of export credit guarantees, and also the details of specific projects guaranteed during that period. Neither did any of the ECAs provide details on all export credit guarantee transactions made. The following table summarises the findings.

Export Credit Agency	Total guarantees (€m)	Reported carbon intensive guarantees (€m)	Estimated percentage of carbon intensive guarantees (%)	Comments
Austria – OeKB	57,615	> 2,586.8	<b>70.5</b>	OeKB reported all the guarantees it issued to category A and B projects during the years 2006-09 but only disclosed the guarantee amount for some of these transactions. Estimated percentage is therefore based on the number of reported projects.
Belgium – ONDD	115,168	> 1,640.0	<b>1.8 - 87.4</b>	ONDD listed all the category A and B projects for 2007-09, but only a range of the guarantee values. Therefore it is very difficult to estimate the real share of carbon sensitive export credit guarantees issued.
Czech Republic – EGAP	7,775	> 225.4	-	-
Denmark – EKF	11,858	-	<b>18.7</b>	EKF reported the number of category A and B projects, without providing details or guarantee amounts. Did not publish sufficient information to calculate the share of carbon intensive projects but an estimation can be deduced from the way they divide their sectors.
Estonia – KredEx	176	-	-	-
Finland – Finnvera	9,505	3,022.6	<b>71.5</b>	Finnvera only reported information on guarantees provided to category A projects above €10 million. Estimated percentage is therefore based on the value of the reported projects.
France – COFACE	-	17,166.0	<b>48.2</b>	COFACE published detailed information on guarantees for category A or B projects above €10 million. Estimated percentage is therefore based on the value of the reported projects.
Germany – Euler Hermes	118,856	32,162.5	<b>27.1</b>	Hermes provides information about projects above €15 million and selected projects of special public interest below this threshold. The percentage is therefore based on estimated value of reported projects.
Greece – ECIO	1,470	-	-	-
Hungary – Eximbank and MEHIB	1,486	-	-	-
Italy – SACE	89,913	9,835.6	<b>89.3</b>	SACE only disclosed details for guarantees issued for category A and B projects. Estimated percentage therefore represent the share of carbon intensive activities inside the group of A and B category transactions.
Luxembourg – Ducroire	> 2,000	No information was available on the proportion of Ducroire's guarantees issued to carbon intensive projects.		
Netherlands – At-radius	16,154	7,700.0	<b>48.0 - 81.0</b>	Disclosed detailed information on all guarantees which are not commercially confidential, including all category A and B projects. Estimated percentages are therefore based on the value of reported projects
Poland – KUKE	> 3,800	-	<b>49.9 - 67.8</b>	Reports the number of category A and B projects, without providing details or guarantee amounts. Based on 2004-07 and number of projects
Portugal – COSEIC	> 291	Does not provide any information that can be used to estimate the share of their guarantee volume dedicated to climate intensive projects.		
Slovak Republic – Eximbanka	827	-	<b>&gt; 12.2</b>	Did not provide project specific information, but the sectoral distribution give a rough indication. Estimated percentage is therefore based on the sector division
Slovenia – SID	Does not provide any information that can be used to estimate the share of their guarantee volume dedicated to climate intensive projects			
Spain – CESCE	-	-	<b>44.4</b>	CESCE reported the number of category A and B projects, without details or guarantee amounts. Estimated percentage is therefore based on number of reported projects.
Sweden – EKN	18,191	-	<b>&gt; 34.3</b>	EKN does not provide project specific information, but a relatively accurate sector division of the guarantees. Estimated percentage is therefore based on industry divisions made by EKN.
United Kingdom – ECGD	13,261	8,095.2	<b>61.0 - 94.5</b>	Disclosed detailed information on all guarantees which are not commercially confidential, including all category A and B projects. Estimated percentages are based on the value of reported projects
<b>Total</b>	<b>&gt; 468,351</b>	<b>&gt; 82,434</b>		

Seventeen EU based ECAs provided export credit guarantees with a total volume of more than €468 billion in the period 2004-2009. It was possible to find or estimate figures on the export credit guarantees to carbon-intensive projects for only nine ECAs, totalling more than €82 billion. KredEx (Estonia), ECIO (Greece), Eximbank and MEHIB (Hungary), LEIDAS (Lithuania), COSEC (Portugal) and SID (Slovenia) did not provide any information that could be used to estimate the share of their guarantee volume dedicated to climate intensive projects. Therefore the total amount provided to carbon-intensive projects is probably much higher, constituting a significant percentage of all guarantees granted by European ECAs.

As a comparison, from 2000–2003 support to renewable energy projects was less than one per cent of the total support of most ECAs.<sup>19</sup> According to the Organization for Economic Cooperation and Development (OECD), during 2002–2008 about nine per cent (or an annual average of US\$2.9 billion) of all long-term official export credit flows went to the energy sector. Specific export credits going to “low-carbon energy technologies” (including nuclear, hydro, geothermal, solar, wind, tidal and biomass) amounted to only a small share: about one sixth of total export credits in the energy sector between 2002 and 2008 (just over US\$534 million on average per year).<sup>20</sup> From this one sixth we exclude nuclear and large hydro projects as they are not considered renewable by the majority of environmental groups, including FERN. Thus the total ECA support for renewable energy is considerably lower than that. Moreover, it is important to remember that the way in which any ‘renewable’ technology is implemented in the local context will influence whether it actually provides a socially and environmentally beneficial form of renewable energy. A poorly planned implementation may produce low-carbon energy, but still cause many social and environmental problems.

The evidence clearly shows that EU ECAs play a key role in supporting or financing carbon-intensive sectors, thereby undermining the EU target to restrict global warming to a two-degree rise.

## Supporting “False Solutions”

Climate change is already happening, and to address it we must switch to low-carbon energy sources; reduce our energy needs; and transform our consumption patterns. Furthermore we need to recognise that climate change cannot be handled in isolation from other crises such as deforestation and land degradation. What is needed is economic and social change. Large-scale technological solutions easily detract from addressing the real challenge of climate change: reducing our energy demands. This section will examine ECAs’ involvement in the different techno-fixes that are being promoted by the industries that have a clear interest in the continuation of business as usual.

### **BOX 2: “False Solutions” Technologies Versus Truly Renewable Energies**

Today’s most polluting industries such as the coal industry are trying to prolong the lifetime of their outdated technologies by dressing them up in new, climate-friendly technological packaging. Their unproven and expensive technologies do nothing but perpetuate our reliance on fossil fuels. In some cases, the technology itself is the problem, as in the case of nuclear power or Carbon Capture and Storage (CCS) while in other cases (such as hydropower generation, biomass for heat and power generation, wind energy, geothermal energy) whether a technology is benign or harmful depends on the interaction between the technology and the local context. Community support is crucial and if the social and environmental context within which the technology is placed is not considered, the project can be a disaster for both local communities and the environment.

**ECA support for Carbon Trading:** The Kyoto Protocol of the United Nations Framework Convention on Climate Change (UNFCCC) set the stage for the creation of a carbon market, where different forms of tradable units (permits and credits from carbon offset projects) can be traded.<sup>21</sup> This section will explore the nature and extent to which ECAs are involved in this emerging carbon market.

*'Pricing carbon credits and their trading have already began [sic] in markets, especially in Europe. Carbon is thus on the way to becoming a new financial product'*  
(JBIC website).

The EU's Emissions Trading Scheme (EU ETS) is the world's largest carbon trading scheme, worth US\$63 billion in 2008.<sup>22</sup> It works by setting a limit on CO<sub>2</sub> emissions, distributing permits up to that limit and then allowing trading, as a cost-management tool, among industries covered by the scheme. Carbon permits are awarded to the industries and can be traded on the open market: this is the emission-trading component. A second trading aspect allows companies to exceed the overall limit placed on their emissions, by buying carbon credits: this is the offsetting part of the scheme. Offsetting means that rather than cutting their own carbon emissions, industry can finance allegedly emission-saving projects in other countries where it is cheaper to reduce emissions. Approved projects under the UN-administrated Clean Development Mechanisms (CDM) produce credits (Certified Emission Reductions – CERs) on the basis of the estimated emissions that would be avoided due to the project. According to the market analyst Point Carbon, the value of trading linked to the EU ETS will increase by 38 per cent in 2010 and the CDM market is expected to increase by 11 per cent.<sup>23</sup> At the same time, finance institutions are developing products to insure against risks, including non-delivery of CERs arising from CDM projects.

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. Apart from OeKB, EKF, the Danish ECA is at the time of writing the only agency providing information online about its carbon trading products — presenting them as a specific and new line of business. Because very little information is available, FERN and the ECA Watch network developed and sent out a questionnaire to some European ECAs to collect information about their involvement in this expanding market. The answers received show that a few ECAs already offer specific products.

	Is the ECA financing/underwriting CDM or Joint Implementation (JI) project	Is the ECA guaranteeing against risk for non-issuance of carbon offset credits	Is the ECA guaranteeing for the future value of emission credits or permits
OeKB (Austria)	Yes. OeKB has covered in total a sum of ca. €150 million over three projects. - Bulgaria, Tsankov Kamak, HEPP: a JI-component was applied for, for financing, and carbon emission certificates were sold to Kommunal Kredit Public Consulting (KPC). - Bulgaria, HEPP: the investor also made a sales agreement for carbon emission certificates with KPC. The export guarantee covers the possible financial impact of political interference, which would make the operation of the reduction plant impossible. - Egypt, NO2-Reduction in fertilizer factory OeKB assumes that many more projects with JI or CDM components are covered, but not listed as such due to lack of information.	No	As this concerns market prices such a guarantee is not possible.
Hermes (Germany)	Yes. Preliminary commitment for a guarantee for a €13 Million JI project which will be 100 per cent financed by carbon credits.	Does not provide a special cover for non-issuance of carbon credits because this risk is already covered by different types of offered products. For example, where carbon credits have to be formally issued by the local authorities this could represent a political risk which is include in many types of Hermes Cover.	No
EKF (Denmark)	Yes. Provides financial and counter-party guarantees (political and commercial risk cover) to exporters, project developers, banks and buyers of carbon credits. No information given about specific projects and amounts.	Yes. Guarantee against non-issuance of carbon credits in JI countries, if the risk seems acceptable and after the host country has accepted the project. The down payment is reimbursed to the buyer of carbon credits if the project does not generate the agreed volume of credits. Could guarantee that the buyer of carbon credits would honour a signed purchase agreement (an ERPA), if the risk seemed acceptable.	No
GIEK (Norway)	No, but would be willing to do so.	No. GIEK regularly guarantee bonds given by banks for pre-payments, most commonly by 50 per cent. If the lack of generation of carbon credits is considered non-performance by the project developer, one could imagine GIEK being involved in covering this risk.	No
COFACE (France)			No. Has not been approached for the coverage
COSEC (Portugal)			No. Has not been approached for the coverage

Is the ECA guaranteeing against non-payment in carbon credits	Is the ECA guaranteeing that the down payment is reimbursed to the buyer of carbon credits if the project does not generate the agreed volume of credits	Is the ECA acting as a bank or broker or facilitator for trading of carbon credits and permits
<p>The securitisation of contractual obligations by foreign contract partners, including payment obligations for emission certificates, is intended and hence possible within the framework of the AustrianExport Guarantees.</p>	<p>No</p>	<p>Yes, offers a CO<sub>2</sub> Emissions Trading service as an outsourcing-solution which facilitates buying and selling of carbon permits both on exchange and over-the-counter. Also involved in the Energy Exchange Austria (EXAA), where the carbon permits and credits are traded. OeKB has been appointed to execute the financial clearing (based on the price and volume data). OeKB performs the daily determination and book entry of the trading participants' payables and receivables. OeKB also bills for the transaction and trading participation fees, clears and settles the payments, monitors payment receipts and provides collection of overdue liabilities.</p> <p>OeKB also covers risk management and credit assessments. Additionally a 100 per cent subsidiary of OeKB offers emission trades for third parties.</p>
<p>Does not provide a special cover for non-payment of carbon credits because this risk is covered by different types of products offered. If a payment with carbon credits was agreed and accepted by the Interministerial Committee, the Hermes cover would also guarantee against non-payment in carbon credits.</p>	<p>No, because this represent a technical risk which is part of entrepreneurial responsibility.</p>	<p>No</p>
<p>Would be prepared to look into such transactions, but have not yet seen any.</p>	<p>Yes</p>	<p>No</p>
<p>No</p>	<p>No</p>	<p>No</p>
<p>not been involved in this market</p>		
<p>ge related to such projects or been involved in the carbon market</p>		

Atradius Dutch State Business from the Netherlands announced the support for a project in India (to a maximum insured amount of €62,533,800) with the description: "supply of fire resistant stone, copper cooling plates and regulatory systems for a gas cleaning plant and an injection system for pulverised coal including spare parts for the heat collection system for waste gases and clinchers and mechanical components for a new blast furnace, design and basic engineering and project management and supervision of the installation and training". This title probably refers to the modernisation and expansion of the Rourkela steel plant which claim it will reduce the CO<sub>2</sub> emissions per tonne of crude steel production. The project has been thus registered as a 'Clean Development Project'.

It is worth noting that Hermes explains that they are not likely to provide a special cover for non-issuance of, or non-payment of carbon credits because different types of existing products already cover these risks. For example: the need for carbon credits to be formally issued by the local authorities (for JI Projects) could represent a political risk — but such a risk is already included in many types of Hermes cover. Therefore we can presume that more ECAs are supporting JI and CDM projects with their political and commercial risk products. Initial findings suggest that ECAs could not give guarantees for the future value of emission credits or permits. Until now, only Oe kb has offered a CO<sub>2</sub> emissions trading service.

**ECA support for the nuclear industry:** In the context of climate change, nuclear energy is experiencing a 'renaissance' with the nuclear option being back in the energy debate — despite public opposition, high costs and the unanswered question of what to do with the waste.

In 2003, SACE and COFACE approved a guarantee for the Cernavoda nuclear power plant in Romania, with Export Development Canada (EDC) and the Export Import Bank of the United States (Ex-Im).<sup>24</sup>

After covering a €570 million guarantee for the Olkiluoto plant in Finland in 2004, COFACE is now considering financing two nuclear power plants in China and South Africa.

In Germany, an exclusion criterion for guarantees for nuclear exports had been in place since 2001 and prevented export credit guarantees from being granted for the Olkiluoto nuclear power plant in Finland and the Angra project in Brazil. However, the new government has just removed this exclusion criteria and Areva/Siemens subsequently made an application for guarantees of €2.5 billion for Angra 3.

Moreover, the OECD Sector Understanding on Export Credits for Nuclear Power Plants was negotiated in June 2009, without any proper consultation with civil society. The



Areva/Siemens applied in November for a guarantee over 1,3 billions Euro for the Brazilian nuclear power plant Angra 3. Besides being an old technology (plans were made in the seventies), the plans for storage of radioactive waste are poor, provisional and not very advanced. Moreover the plant would be built in the only earthquake prone area in Brazil.  
Image: urgewald

Sector Understanding include the commitment to “boost official backing for exports of nuclear power equipment by offering more generous terms on government-backed credits in support of export deals”.<sup>25</sup> An extension of favourable financial terms for nuclear power plants heaps additional public financial benefits onto an already heavily subsidised sector, that is extremely dangerous due to the quantities of radioactive nuclear waste created. It is presented as clean energy because no carbon dioxide is emitted during the electricity generation process, but every other stage of the process including mining, transportation of the uranium, construction and decommissioning of the plants, storage of waste, are carbon-intensive. Therefore, it is not a solution to climate change.

**ECA support for “clean” fossil fuels:** Carbon Capture and Storage (CCS) allows the continuation of coal burning, but with the carbon emissions captured and buried under the ground in rock formations, old coal mines, or oil fields under high pressure. Coal is one of the dirtiest fuels available, and the term “clean coal” seems to be somewhat of an oxymoron, as it has not, to date, been possible to capture and store all CO<sub>2</sub> generated in the process. For example, in Germany only one plant currently claims to capture its carbon: Schwarze Pumpe, a pilot project of only 30 Megawatts (MW) generation capacity. So far, the company running the project has been unable to find storage space for even the relatively small amount of carbon it has captured and the plant is presently re-emitting all the captured carbon back into the atmosphere. Scientists from the Massachusetts Institute of Technology (MIT) and other well-respected institutions like the Global Carbon Capture and Storage Institute of the Government of Australia, predict that CCS may only become commercially viable by 2030. Even if such a technology was available in 20 years time, there is no proof that the buried carbon would actually stay underground. Another major concern is that carbon burial grounds can leak, as already happened when naturally sequestered carbon dioxide rose from Lake Nyos in Cameroon and asphyxiated 1,700 people in 1986. In any case, beyond the question of CCS, there are many other social and environmental impacts related to the mining of coal, which remain highly problematic.

In 2005, Japan's JBIC provided guarantees for the Anhui Coal Gasification Project in China, described as drawing “on clean coal technology to upgrade the production line at an ammonia manufacturing plant”.<sup>26</sup> In the US the Ex-Im Bank's new Carbon Policy envisions more financing for this kind of technology. It “will provide financing support for evolving technologies that reduce CO<sub>2</sub> emissions in the production of energy. It will develop measures to encourage foreign buyers to seek available, commercially viable technology to reduce the carbon footprint of fossil fuel projects. While maintaining the competitiveness of US exporters, Ex-Im Bank will develop initiatives to finance aspects of project development that reduce or mitigate CO<sub>2</sub> emissions, such as effective carbon capture and sequestration technology.”<sup>27</sup>

**ECA support for biomass:** Biomass as an energy source, globally the largest contributor to renewable energy, relates to the burning of wood and other solid bio-energy or gaseous products for direct use as heat or to generate electricity. In 2008 in the EU, cogeneration of heat and power (electricity) accounted for more than 60 per cent of electricity production. Electricity can also be produced on a large-scale by co-firing biomass with coal in existing coal-fired power plants. This has very low efficiency levels.

A previous FERN briefing note analysed EU public support for bioenergy. It identified three ECAs (German-based Euler Hermes, EGAP in the Czech Republic, and OeKB in Austria) as giving support to a total of five bioenergy projects in the period 2004-2008. The sums involved in two of the projects are unknown, but support to the other three projects amounted to €34 million. The support was in the form of export guarantees or credit lines for projects such as the procurement and construction of two biomass power plants in Brazil; the supply of equipment to a biomass power plant in Sri Lanka; and the construction of a biowaste fermenting plant for energy production in Singapore.

**ECA support for big dams:** Large-scale dams have major negative social and environmental impacts, displacing millions of people, destroying wildlife and fragmenting rivers. Although it is not widely recognised, they also contribute quite significantly to global warming.<sup>28</sup>



Negotiations within the OECD Working Party on Export Credits and Credit Guarantees (ECG) lead to the establishment of Sector Understandings for Renewable Energies and Water Projects. This allowed better repayment terms for, among others, large dams.

From July 2005 through June 2008 under this Sector Understanding, the total value of export credit finance for renewables of all the OECD ECAs was approximately US\$933.6 million, but of this amount, over two thirds (US\$625 million) went to Ilisu, a very controversial hydroelectric dam.<sup>29</sup>

## Fossil Fuel Policies: Contradictions Between Objectives And Actions

At the Pittsburgh Summit in September 2009, the G-20 leaders announced that they had agreed, “to phase out and rationalise over the medium term inefficient fossil fuel subsidies while providing targeted support for the poorest”.<sup>30</sup> Indeed, halting fossil fuel subsidies would save governments billions of dollars while also dramatically reducing greenhouse gas emissions and supporting cleaner forms of energy and energy efficiency.

The US has introduced legislation requiring the Overseas Private Investment Corporation (OPIC) to slash greenhouse gas emissions from the projects in which it invests by 50 per cent over the next 15 years. In 2007, OPIC had already announced its target to cap and reduce its portfolio’s emissions by 20 per cent in ten years. On 16 December 2009, the US President signed into law a bill which requires the agency to cut emissions from its portfolio by 30 per cent over the next ten years from June 2008 levels, and 50 per cent by 15 years, as part of “a revised climate change mitigation plan”. These are still only commitments, and the policy has to be developed. In November 2009, the US Export-Import Bank (Ex-Im) had adopted what it claimed to be the first comprehensive carbon policy for an ECA, setting up a \$250 million facility to back renewables (representing less than 2 per cent of their financing portfolio) but did not commit to cap-and-reduce the GHG emissions from its portfolio, making it weaker than the existing OPIC climate policy.

Moreover, at the same time, the Ex-Im Bank confirmed a record-breaking US\$3 billion in financing for the ExxonMobil-led Papua New Guinea Liquid Natural Gas fossil-fuel project (PNG LNG). Ex-Im Bank’s financing for PNG LNG is twice its total financing for all oil, gas and LNG projects supported in Financial Year 2008, and nearly 99 times the US\$30.4 million that Ex-Im Bank provided for renewable energy that same year. The Papua New Guinea project is also expected to attract ECAs from Korea, Australia, Italy and possibly China.

Ex-Im Bank estimates that PNG LNG will emit 3.1 million tonnes of CO<sub>2</sub> every year in direct emissions,<sup>31</sup> though that figure omits the emissions associated with the pipeline transport, liquefying gas, tanker transport, re-gasification and ultimate combustion of this fossil fuel. The gas — after being converted into liquid form — will be shipped to overseas markets, in particular to Japan, China and Taiwan.

Besides the PNG LNG, Ex-Im Bank is responsible for other controversial projects: a US\$2 billion preliminary commitment in May 2009 benefiting Petrobras, the Brazilian state oil company;<sup>32</sup> and US\$900 million of financing in April 2009 benefiting PEMEX, Mexico's state oil company.<sup>33</sup>

It is crucial to understand that, even in 2009, as they were announcing the phasing-out of subsidies for fossil-fuel development overseas, in the US, eight coal fired power plants totalling 3,218 MW became operational.<sup>34</sup> This represents the biggest increase in new coal capacity in any one year since 1991. In addition, another 4,605 MW of new capacity has been proposed. In January 2010, 22 other projects were under construction.



The Bell Bay Pulp Mill project, proposed by Gunns Ltd, Australia's largest logging company, would be a disaster for the environment, communities and the economy. Gunns has a wood supply deal with Forestry Tasmania for at least 1 million tones of native forest wood every single year for the next 20 years. This will lead to the destruction of irreplaceable forests, pollute the air of the local community and pump billions of litres of toxic pollution into Bass Strait each year. Pulp production is among the most energy intensive industries. Finnvera (Finland's official Export Credit Agency) and OeKB (Austria's export credit agency) are the European ECAs involved in this project. image: Wilderness Society

## Conclusions

ECA support for fossil-fuel infrastructure projects in the global South and in many developed countries underlines the contradictions between ECA financing and commitments made by governments under the Kyoto Protocol, where industrialised countries agreed to reduce their emissions, support developing countries in their efforts to reduce their emissions, and facilitate the transfer of environmental technologies to developing countries.<sup>35</sup>

Today, EU based ECAs are directly undercutting the climate commitments and concerns of their own governments and of the EU. Although EU Member States emphasise the importance of reducing carbon emissions in developing countries, ECA financing favours exports and investments that disproportionately benefit energy- and carbon-intensive industries. Moreover, most ECAs operate with little or no transparency and, as a result, are rarely accountable for the environmental consequences of their financing. ECAs provide backing for the very opposite of sustainable projects: the large majority of their support goes to oversized, centralised, energy intensive projects and their decisions are almost always made without transparency or the participation of affected communities.

Through their financing, ECAs play an important role in influencing the decisions that are made in the energy sector. ECAs are therefore in a position where they could significantly contribute to a transition to low-carbon economies, leveraging much-needed investment in the energy efficiency. But in order to rise to this occasion, their lending priorities will need a radical re-focusing, starting with an analysis of the environmental and social impacts of the projects they finance, and a commitment to leveraging clean energy instead of fossil-fuel projects.

They are also in a position to play a standard-setting role for financial institutions such as commercial banks, and influence the behaviour of their clients by setting stronger standards. However they have not yet decided to exercise their influence in this way — a position that will become increasingly unacceptable as the climate crisis worsens and political leaders are called upon, with increasing urgency, to direct the resources at their disposal to mitigate the problems.

## Recommendations to Government

**Change the mandate of ECAs:** ECAs' lending policies must support their government's sustainable development objectives, as well as the EU's climate objective to remain within a two-degree rise in temperature. They need clear direction from their governments and/or shareholders.

**Adopt stringent, legally binding environmental, social and climate standards for ECAs:** OECD guidelines for ECAs have proved insufficient to protect the planet and its people. Therefore ECAs must be bound by International Conventions, and Environmental and Social Impacts Assessments must be completed for all projects, and not just for the Category A and B projects. With regard to climate change, an energy analysis must be included in these environmental assessment procedures to determine whether project proposals maximise energy-efficiency improvements.

**Greenhouse gas accounting and emission reduction targets:** The very first step must be to establish the ECAs' carbon footprint. The greenhouse gas accounting is not a goal in itself but should be used as the basis to commit to clear reductions in greenhouse gas emissions.

**Include climate risk:** ECAs must evaluate the carbon footprint of the projects they want to finance and include their climate risk into the premiums they are charging. Indeed, the so-called Minimum Premium Rate "shall be risk based"<sup>36</sup>

**Facilitate investments in renewable energy and other climate-friendly technologies:** ECAs need clear direction from their governments and/or shareholders, in order to develop new products and approaches to address the specific requirements of low carbon technology projects. Some of these could be developed directly by the individual ECAs; others will require governments to collectively change relevant international agreements, including the OECD Arrangement on export credit finance.

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