



Brussels, 26 March, 2010

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 on-going review of the Sector Understanding on Export Credits for Renewable Energies and Water Projects (Sector Understanding) by the Participants to the Arrangement on Officially Supported Export Credits (Participants).

We have outlined our comments starting with our overall concern about ECA financing of fossil fuels and then following this up with specific inputs to sections of the Sector Understanding. It ends with a short conclusion bringing together the main issues to concentrate on.

Overall Issue: The need to end fossil fuel financing

The G20 has committed to phase out fossil fuel subsidies, and we believe this should include ECA financing. The largest G20 economies' ECAs are a frequent and substantial source of support for fossil fuel promotion. Continued ECA financing of fossil fuel projects risks sending a dangerous message to developing G20 economies (many of which are not OECD members) and G77 economies. The message seems to be 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. This is because the larger economies will continue ECA 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 debates ensue regarding whether or how ECA financing for climate change mitigation can be counted within the evolving UNFCCC process, a case will be made that ECA financing for fossil fuels must be *counted against* those same countries' alleged contributions.

Specifically, we note that the purpose of the draft revised Sector Understanding is:

“to provide adequate financial terms and conditions designed to support projects in selected sectors identified under international initiatives as significantly contributing to climate change mitigation...”

We firmly reiterate our previous inputs to the Participants and the Export Credit Group which stated that the most important action export credit agencies can take to significantly contribute to climate change mitigation is to end financing for fossil fuel projects and related transactions.

We recently raised this issue in a letter to the G20 Finance Ministers which stated that support from ECAs for the production and transport of fossil fuels; fossil fuel power generation; and the production of modes of transportation that rely on fossil fuels, is financially significant and pervasive. Such support generates incentives to invest in those sectors that “encourage wasteful consumption, distort markets, impede investment in clean energy sources and undermine efforts to deal with climate change.” This is despite the fact that such sectors were slated for termination under the G20 mandate to phase out fossil fuel subsidies (see Leader’s Statement: The Pittsburgh Summit, September 24-25, 2009).

ECA financing for fossil fuel projects eclipses ECA financing of renewable energy and energy efficiency projects, cancelling out any positive effect of ECA financing aimed at “significantly contributing to climate change mitigation.”¹

Therefore, the stated purpose of the draft revised Sector Understanding should be to:

- ◁ Ensure that ECA support for projects with negative climate change impacts is phased out
- ◁ Ensure regular monitoring of the effect of ECA supported transactions on the vulnerability of communities and ecosystems to climate change such as draught, storms and floods.

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.

¹ Cf. Financing Climate Change Action, Supporting Technology Transfer and Development: Key messages and recommendations from recent OECD work, p. 5; <http://www.oecd.org/dataoecd/60/1/44080723.pdf>

What follows are our specific comments on chapters of the report. This input also ends with a final conclusion on behalf of ECA-Watch.

Chapter I.2 Scope of Application for Projects Eligible to Appendix 2

This section identifies the scope of application provided that certain conditions are met including, *inter alia*, “[t]he project should result in low to zero carbon emissions, or CO2 equivalent, and/or in high energy efficiency,” **however the terms “low” and “high” are not defined.** Also proposed, “[t]he project is expected to meet, as a minimum, internationally recognised technical and/or performance standards (whenever available) that are measurable, reportable and verifiable.” Similarly, proposed revision contains no definition of minimum international recognised technical and/or performance standards. In the absence of such definitions, we fear ECAs will define these terms themselves, creating confusion and an uneven playing field. Moreover, in some instances, such as carbon capture and storage, we believe that there are no adequate internationally recognised technical and/or performance standards to apply. The lack of defined terms is very concerning especially in light of the fact that potential sectors under consideration for Appendix 2 have not been publicly disclosed.

Chapter I.3 Scope of Application for Water Projects

We note that the proposed revised Sector Understanding includes provisions to support projects related 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 Cochabama, Bolivia, Bechtel planned to raise rates so high that poor families would have 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.

Chapter II.5, 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 inquire as to the purpose of this provision and question its consistency with policy commitments to reduce developing country debt.

Chapter II.8 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.

Chapter III.9 Prior Notification

Within the context of the Arrangement and this draft Sector Understanding, prior notification refers to notifying other Participants to the Arrangement. ECA-Watch would argue that public prior notification is required as well in order to allow ECAs to take public concerns and suggestions into account as well. **Therefore “prior notification” in this section should be replaced by “prior notification to the Participants and the public at large”.** Prior notification should not only allow other Participants, but any other party (including individuals) to request discussion. After a decision has been made, a Participant should inform all other Participants and the public at large of its final decision following a discussion, to facilitate the review of the body of experience.

Chapter IV.11 Monitoring and Review

This section appropriately requires Appendix 2 to be *“reviewed at regular intervals, including upon the request of one or more Participants, with the view to assessing whether any “climate change” mitigation sectors should be added to, or removed from, that Appendix.”* While we support the provision allowing one or more Participant to initiate a review, **the term “regular interval” should be defined so that a review occurs within a specified time period in the event that no Participant initiates a review.** This can ensure that stakeholders can provide input as the sector evolves. Moreover, monitoring of the Sector Understanding implementation should provide for complete transparency and public disclosure of transactions supported so that the public can exercise the right to be informed and engaged in the monitoring process.

Appendix 1: Renewable Energies Sectors

e) Osmotic power

We note that the draft Sector Understanding includes osmotic power within Appendix 1. We note that environmental problems associated with large scale osmotic power potentially 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 rather untested technologies in the Sector Understanding.

i) Bio-energy

We note that bio-energy is included in Appendix 1. We oppose enhanced financing terms for waste incineration, including biomass power, because this technology has so

many harmful side effects that it may increase rather than reduce 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. 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>

j) Hydro power

We reiterate concerns stated in the 27 May 2005 ECA-Watch letter (available on request) which stated our opposition to preferential terms for large hydroelectric dam projects because of their harmful and often irreversible social and environmental 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 Ilisu dam in Turkey. Large hydropower projects are incongruous with the environmental purpose of this Sector. With regards to climate change mitigation, scientific studies increasingly indicate that dams and reservoirs are globally significant sources of the GHGs carbon dioxide and, in particular, methane.² 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 methane equals 4-5 per cent of all human-caused warming. Hydropower should therefore be excluded from any provisions aimed at mitigating climate change.

k) Energy efficiency in Renewable Energies projects

Our organizations strongly support downstream, end use, energy efficient projects, and 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

² 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>

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 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. 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.

Appendix 2: Climate Change Sectors

With no information provided in this section we are unable to react to any identified proposals. This is particularly disturbing and inappropriate given our understanding that specific sectors are being discussed and debated by the Participants and potentially the larger Export Credit Group. In the absence of this disclosure, we wish to reiterate our previously stated position on what we believe may be under discussion:

Biofuels: Biofuels are an increasingly maligned form of fuel with regard to their GHG reducing benefits and have many negative environmental and social impacts. They should therefore not be provided with enhanced financing terms. While some biofuel feedstocks – such as certain species produced on a small scale – 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 the 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 GHG emissions than are saved by the displacement of fossil fuels.

“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, environmental networks

with which we are associated oppose financing for new fossil fuel projects, especially those using coal, as coal contributes about 60 per cent of global CO₂ emissions. “Carbon Capture and Storage” perpetuates the burning of coal while suggesting that the capturing and burying of coal in the ground will make it climate-friendly. However, there are severe doubts that it may be possible to store the CO₂ underground for the required thousands of years. There are already concerns that carbon deposits could start to leak after a relatively short period of time. In Germany, for example, it has not been possible to find a storage place for even a small pilot plant, and attempts have been met with strong resistance by the local population. 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. Risks associated with coal go well beyond the emissions the plants produce since the disastrous impacts of mining have to be taken into account too.

Further, supercritical coal technology is already more efficient and cheaper than conventional coal technology, 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 life spans. Also, carbon capture and storage technology remains not only technologically unproven, but also financially risky. The role of public capital in credit agencies should not be to support risky ventures.

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 – despite both of these being necessary for the scheme to work. For example (just to name a few) carbon offsets are given for “clean” coal despite such technology already being 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.

Furthermore, 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>

To conclude, carbon trading is a dangerous distraction from the important task of ending industrial use of fossil fuel and moving to a low carbon future. It becomes even more dangerous when it involves carbon offset projects. Offset schemes allow companies who have not yet had their emissions capped to gain green credentials by paying someone else, somewhere else, to reduce their emissions while the companies continue their business-as-usual activities. Carbon offsets distract from the need to drastically reduce emissions, particularly in industrialised countries. Moreover, communities have seen their rights curtailed and pollution rise as a result of carbon offset projects. We would therefore be opposed to any enhanced terms associated with offsets or carbon trading.

Appendix 3: Methodology to be Used When Determining the Eligibility of Sectors Relating to Article 2 of this Sector Understanding

This section reflects an important attempt to quantifiably measure and provide information on the claimed impact of a climate change sector that a Participant proposes to be added to Appendix 2 of the Sector Understanding. This information should be provided to the public so that stakeholders can exercise their right to participate in this government and intergovernmental process. In addition to measurable data regarding carbon emissions and/or energy efficiency, evaluation should also address the impacts of project support by ECAs for communities and ecosystems already vulnerable to climate change.

This section also includes reference to the need for an agreed definition of Best Available Technology (BAT). In the absence of any proposed definition we are unable to provide substantive comment on what might be acceptable. Also, we must stress that in some instances, such as carbon capture and storage, even the most advanced available technologies remain technologically unproven and are inadequate to assure that the purpose of the Sector Understanding will be achieved.

Arrangement Annex V: Information to be Provided for Notifications

This section includes important requirements for project-specific descriptions and explanations that must be provided by Participants. This section should be amended to include public disclosure of this information. Concerns over the disclosure of competitive information cannot be used as a rationale for withholding this information, since disclosure of this information by Participants to competing Participants is already required by the currently proposed provisions.

Conclusion

ECA-Watch thanks the Participants for the opportunity to comment on the proposed revised Sector Understanding.

We note with increasing concern that ECA financing of fossil fuel projects and related transactions is omitted from the Sector Understanding. ECA fossil fuel financing far eclipses ECA financing for renewable energy / energy efficiency, cancelling out any climate change benefits intended by this Sector Understanding. Fossil fuel financing undercuts important initiatives at the UNFCCC and G20, and sends a signal that the Participants' 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 any claimed ECA contribution to climate change financing.

While ECA-Watch supports enhanced financing for certain types of appropriate renewable energy and energy efficiency, we reiterate concerns about many other sectors that the Participants may claim contribute to climate change finance, including large hydro-electric dams, biofuels, so-called **“clean” coal, carbon capture and storage, coal bed methane, carbon offsets and carbon trading**. While the proposed revisions related to Appendix 2 reflect important attempts to quantify and justify proposed sectors and projects, many terms lack definition which invites abuses of discretion by ECAs. Moreover, this lack of clarity, when combined with the failure to identify those sectors under negotiation in Appendix 2 leads us to urge that the Participants not expand the Sector Understanding beyond what was agreed in June, 2009 and, in fact, to reduce the scope of the Sector Understanding to exclude large hydroelectric projects.

Thank you again and please feel free to contact us with additional questions.

CC: Mr. Angel Gurría, Secretary-General, OECD
Mr Julian Paisey, Export Credit Division, Trade Directorate