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EFIC's gamble
with climate



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foreward

Dr Clive Hamilton - The Australia Institute

The Federal Government claims that it takes the problem of climate change seriously and has committed \$1 billion to greenhouse gas reduction programs in Australia. While there are questions about the truth of these claims, there is no doubt that the Australian Government has, through its export credit agency, facilitated and encouraged the development of many highly polluting projects in developing countries, locking in huge amounts of greenhouse gas emissions for decades to come.

Australia's Export Finance Insurance Corporation (EFIC) supported exports and overseas investment valued at \$7.2 billion last year through provision of loans, insurance and guarantees, much of it in energy infrastructure. Its support for fossil fuels and fossil fuel technology investments benefits some Australian corporations but completely contradicts expressions of concern about climate change.

The Australian Government has frequently declared that it will not ratify the Kyoto Protocol because it does not require mandatory cuts in emissions from developing countries. Yet it actively promotes the long-term growth in developing country emissions. A special term has been coined for this - carbon hypocrisy.

In contrast to the generous support for carbon-intensive investments in developing countries, the Australian Government provides minimal support for renewable energy and energy efficiency projects. Indeed, as this report shows, for every \$1 spent supporting the export of renewables, EFIC spends an estimated \$100 supporting fossil fuel exports.

It is hard to overstate the short-sightedness of this policy, for it not only promotes yesterday's industries at the expense of tomorrow's, but leaves future generations with a bigger climate change problem to deal with. If ever a government agency needed a radical culture change, it is EFIC.

acronyms

AusAID: the Australian government's official aid agency, the Agency for International Development

CSIRO: Commonwealth Scientific & Industrial Research Organisation

ECA: Export Credit and Insurance Agency. Government or quasi-government agencies providing publicly backed loans, credit and insurance to the private sector to boost exports

EFIC: the Export Finance and Insurance Corporation, the Australian government's official ECA

G8: The Group of Eight – the world's seven largest economies (USA, Japan, Germany, France, UK, Italy and Canada) and Russia.

IFIs: International Finance Institutions – the group of multilateral finance institutions such as the World Bank Group and other development banks

IPCC: the Intergovernmental Panel on Climate Change

OECD: Organisation for Economic Cooperation and Development, the forum or association for industrialised countries

definitions

Renewable Energy: Energy generated through renewable means, including solar, wind, thermal, biomass and small hydro. Large-scale hydro is not considered renewable energy.

Renewable Energy Technologies (RET) also called Sustainable Energy Technologies or (SETs): Technologies and processes used to generate electricity without burning fossil fuels.

Fossil Fuels: Coal, oil, shale oil and gas.

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executive summary

The Export Finance Insurance Corporation (EFIC) is the Australian government's export credit agency (ECA). In FY2003 EFIC supported exports and overseas investment valued at \$7.2 billion through provision of loans, insurance and guarantees.

EFIC and Climate

Analysis of EFIC Annual Reports indicates that over the past 11 years the institution has been a substantial contributor to climate change through its significant backing of exports of fossil fuels and support for investment in power sector infrastructure.

EFIC backs fossil fuels over renewables at a rate of more than 100:1

EFIC has backed fossil fuels over renewables at a rate of more than 100 : 1 over the past 11 years. The lavish support that EFIC has provided to facilitate coal exports (around \$7.2b) and fossil fuel based power sector infrastructure (\$439m) – totalling almost \$7.6b – dwarfs the mere \$67m in renewables that EFIC has supported over the same period.

A substantial portion of EFIC-supported exports go to the countries of the Asia Pacific region. Through EFIC's subsidisation, by provision of State-backed financing where commercial financiers will not do so because of risk, for coal and promotion of its 'clean coal alternative' EFIC is a key inhibitor of the shift to renewable energy sources in the region. Combined with its failure to take any measures to address the significant market barriers to the renewable industry - in stark contrast to the current approaches of some other ECAs and IFIs - EFIC is locking Asia Pacific nations into future fossil fuel dependency at the expense of the climate.

Carbon Hypocrisy

The Federal government has refused to ratify the Kyoto Protocol in large part because it requires cuts to greenhouse gas emissions from industrialized nations while not providing limits for developing countries. The Minister for the Environment argued in late 2002 that:

*"The Kyoto Protocol is flawed... the Kyoto Protocol does not require greenhouse reductions from developing countries, which will soon be producing more than half the world's greenhouse gases."*¹

The stark hypocrisy of EFIC's actions is plain – while government bemoans CO2 emissions from low income countries the government's ECA continues to push exports of fossil fuel and fossil fuel technology such as coal-fired power plants on to those same low income countries, guaranteeing increased CO2 emissions.

This "policy perversity"² is at the core of the international climate debate with developed countries on one hand preaching the perils of climate change while their trade and aid arms finance swathes of fossil fuel projects in the majority world.

Recommendations to EFIC

AID/WATCH, the Mineral Policy Institute and the Sustainable Energy and Economy Network have developed a list of 12 recommendations for EFIC grouped under three broad headings:

- A. Transparency, carbon disclosure and targets**, including calculation of EFIC's 'climate impact'; 'whole-of-institution' targets for cutting greenhouse gas emissions
- B. Phase out support for fossil fuels**, including deep cuts – EFIC commit to 80% cut in group carbon emissions compared to 1990 levels by 2050; moratorium on support for investment in fossil fuel and energy intensive projects.
- C. Phase in support for renewables**, including commit to a target of 20% of total exports and overseas investments supported by EFIC being dedicated to renewable energy by 2010; institute a Renewable Energy Advisory Committee comprising NGOs, industry and government to work towards reforms that will increase support for renewables.

The sale of EFIC's short term business to Gerling NCM

EFIC's short term credit insurance business – previously the bulk of its business - was sold off in September 2003, representing a significant change in the shape of EFIC as an institution. EFIC will now focus on large scale, environmentally risky projects (Category A). This narrowing of focus onto risky projects that commercial financiers won't touch makes it more important than ever that EFIC meets its climate responsibilities.

ECAs and climate

ECAs internationally are the key financial backers behind much of the energy-intensive and fossil fuel-related infrastructure in the developing world, where private banks are often unwilling to lend because of high risk. Between 1994 and early 1999, oil and gas development projects, and power projects using fossil fuels, made up nearly 40% of project and trade finance flows to developing countries - ECAs accounted for 20% of this financing. This means that ECAs are playing a key role in deciding the energy futures of the next 30–40 years for developing countries, locking in increased greenhouse gases emissions, and exacerbating climate change. ECA support from the United States alone for fossil fuel projects between 1992 and 1998, some \$US23.2 billion, will result in lifetime emissions from these projects of 29.3 billion tonnes of carbon dioxide.

EFIC's Environment Policy and Climate Rhetoric and Reality

EFIC's Environment Policy doesn't mention climate. The Policy requires no explicit assessment of the climate impact of any particular project that EFIC may consider involvement in, nor of the institution as a whole. This is borne out in the absence of any discernible positive change in EFIC's climate behaviour since the inception of the Policy in 2000. Given the reality of global warming the 'head in the sand' approach that EFIC has adopted towards climate change is woefully inadequate.

EFIC attempts to absolve itself of any responsibility by arguing that 'In practice EFIC's business is largely exporter driven.' The reality is that this approach equates with 'business as usual'. It would appear that EFIC's Environment Policy was designed to ignore the threat of climate change and to that end they have succeeded comprehensively. However the climate threat continues to grow and so the challenge for EFIC remains.

POLICY ALTERNATIVE - Phase out EFIC

If EFIC remains unwilling or unable to change the appropriate alternative is for EFIC itself to be phased out. The reality of climate change is simply too serious for an institution with the influence over energy development of EFIC to continue with a business as usual approach. Abolishing EFIC presents a simple way to cease public subsidies through EFIC for climate intensive activities. The negative impact of this measure on climate positive exports would be minimal given EFIC's negligible support to the sector to date.

section 1

Export Finance and Insurance Corporation (EFIC)

EFIC is the Australian Government's official Export Credit and Investment Agency (ECA). EFIC's mission is to increase Australia's exports and it does this principally by providing insurance and finance services. These are government guaranteed loans, political risk insurance, commercial risk insurance and credit guarantees. They are provided for the benefit of Australian corporations and banks wanting to export or invest overseas. EFIC provides this financial backing where none is available from the private sector because the risk associated with the export or investment is too great.

EFIC is a statutory corporation and is wholly owned by the Commonwealth. EFIC is self-funding – most years it makes a small profit and it maintains and builds a reserve to be drawn on if and as required. Ultimately, EFIC's activities are guaranteed by the Australian people through the Commonwealth government – in effect all Australians own EFIC. EFIC reports to the Minister for Trade the Hon Mark Vaile MP. The EFIC Annual Report is tabled in parliament.

Until last year, EFIC underwrote approximately 100,000 export shipments, mostly providing insurance against non-payment by the overseas buyer. EFIC now concentrates on providing loan, guarantee or insurance facilities, including political risk insurance against community opposition to projects or environmental risk, for periods of up to 15 years.¹ In FY2002-2003 EFIC provided government-backed support for exports worth \$7.2 billion.

EFIC operates two accounts. The commercial account is run on a commercial basis and EFIC has immediate responsibility for the overall profitability of this account. The National Interest Account is used at the discretion of the Minister for Trade and the Federal government assumes immediate responsibility for the use of the account with EFIC simply operating the account. Ultimately, all of EFIC's activities through both accounts are guaranteed by the public.

ECAs – THE GLOBAL CONTEXT

Virtually all industrialized countries (members of the OECD – the Organisation for Economic Cooperation and Development) have one or more ECAs. Some low-income countries such as Brazil, Indonesia and India also have official ECAs.

ECAs are the largest group of international finance institutions (IFIs) in the world, increasingly becoming key players in determining the development path of the majority world.²

Between 1990 and 1997, total financing by OECD country

ECAs for infrastructure developments was about twice the level of official development assistance ('aid' – through the more well-known multilateral development banks such as the World Bank and Asian Development Bank as well as through bilateral aid programs) during the same period.³ Through this period ECAs financed US\$80bn – \$100bn per year of infrastructure developments through a combination of loans, project guarantees, and investment insurance.

The flow on effects are even more significant. The World Resources Institute (WRI) estimates that the leveraging power of ECA finance – the ability to mobilise further funding once ECA finance has been secured – is massive. WRI has calculated that every dollar of ECA financing secures more than two dollars of private investment to match it.⁴ ECAs wield significant influence – globally – on the types of infrastructure projects that are able to secure financial support.

ECAs - destructive engines of Climate Change

ECAs are the key financial backers behind much of the energy-intensive and fossil fuel-related infrastructure in the developing world, where private banks are often unwilling to lend because of high risk. Between 1994 and early 1999, oil and gas development projects, and power projects using fossil fuels, made up nearly 40% of project and trade finance flows to developing countries - ECAs accounted for 20% of this financing.⁵ This means that ECAs are playing a key role in deciding the energy futures of the next 30–40 years for developing countries, locking in increased greenhouse gases emissions, and exacerbating climate change.⁶ ECA support from the United States alone for fossil fuel projects between 1992 and 1998, some \$23.2 billion, will result in lifetime emissions from these projects of 29.3 billion tonnes of carbon dioxide.⁷

Fossil fuel energy intensive industries are also major recipients of ECA backing. Publicly-backed flows of trade and project finance going to developing countries is concentrated in fossil-fuel power generation, oil and gas development, energy-intensive manufacturing, including petrochemicals, transportation infrastructure and aircraft. From 1994 to early 1999, sixty percent of US\$376 billion in financial backing from ECAs in Europe, Japan, Canada and the United States was directed to projects in developing countries in these energy-intensive sectors.⁸ Renewable energy support is rarely mentioned in such statistics. ECA lending portfolios thus far have been almost exclusively directed towards conventional energy supply, and in particular fossil fuels. The climate impact of this investment now and over the course of the next decades as the world continues to work towards the aim of reducing greenhouse emissions is significant.

RENEWABLE ENERGY

Globally, the renewable energy industry is rapidly emerging as a legitimate alternative to traditional fuel sources for electricity, heat and transport. Renewable energy technologies include: solar, wind, thermal, small-scale hydro, and biomass.

Growing international demand, market opportunities

Renewable energy and energy efficiency industries offer an opportunity to create jobs for exporter countries and host countries while also contributing to meeting growing global energy needs in a sustainable manner. The G8 Nations Taskforce on Renewable Energy observed in 2001 that costs of some renewables have dropped significantly in recent years, creating widening competitive markets, to the extent that renewable energy resources can now begin to contribute significantly to the global energy portfolio.

The Asia-Pacific region is predicted to have the greatest growth in demand for energy, and this occurs at a time of increasing global concern over climate change, with calls for a committed move from fossil fuel dependency in energy production. Around half this growth will need to be met from exports,¹¹ and Asia increasingly aspires to cleaner forms of energy to meet its major growth in energy requirements.

Wide ranging opportunities exist for those with expertise in low pollution technologies, and both on-grid and off-grid renewable energy power generation.¹² The renewable energy industry in Australia is capable of providing significant opportunities in terms of economic and employment growth, particularly for regional areas. It also has the potential to assist the Government move closer towards meeting its international commitments to reduce greenhouse gas emissions and to achieve other environmental outcomes.¹³

Australian government pronouncements on developing countries and CO2 emissions – EFIC and carbon hypocrisy

The Federal government has refused to ratify the Kyoto Agreement because it requires cuts to greenhouse gas emissions from industrialized nations while not providing limits for low-income countries. The Minister for the Environment argued in late 2002 that:

*The Kyoto Protocol is flawed... the Kyoto Protocol does not require greenhouse reductions from developing countries, which will soon be producing more than half the world's greenhouse gases.*¹⁴

Even more recent has been the release of the Australian Greenhouse Office report titled, *“Climate Change: An Australian Guide to the Science and Potential Impacts”* in December 2003. Heralded as the most up to date and comprehensive guide to the impacts of climate change, one of the key recommendations is for “cooperative global solutions”. The Minister for Environment and Heritage, Dr David Kemp stated at the time:

*Australia has been focusing on promoting effective practical national and international action to deal with climate change....the question [is] no longer ‘Will the Climate Change?’, but rather ‘How will it change?’ followed by ‘What can we collectively do to reduce the threat?’.*¹⁵

The stark hypocrisy of EFIC’s actions is plain – while government policy is to bemoan CO2 emissions from low income countries and provide endless rhetoric about working together to reduce the impacts of climate change, the government’s ECA continues to push exports of fossil fuel and fossil fuel technology such as coal-fired power plants on to those same low income countries, guaranteeing increased CO2 emissions and markets for Australian coal.

This “policy perversity”¹⁶ is at the core of the international climate debate with developed countries on one hand preaching the perils of climate change while their trade and aid arms finance swathes of fossil fuel projects in the majority world.

Backing fossil fuels ‘locks in’ low-income countries to ongoing fossil fuel dependency. Given that the lifespan of most energy infrastructure exceeds 25 years, low-income countries must accelerate the process of de-linking emissions from economic growth starting now. The 1992 Framework Convention on Climate Change does not make specific reference to subsidies for fossil fuels such as EFIC and other ECAs provide. However in order to fulfill the ultimate objective of the Convention global emissions must peak within the next 20 years.¹⁷

Simultaneously, backing fossil fuels sends the wrong message to policy makers in developing countries. Actions speak louder than words and so ongoing subsidies for export of fossil fuels to low-income countries is a clear message that drowns out any professed concern regarding greenhouse gas emissions from low-income countries.

THE ‘CLEAN COAL’ MYTH

Coal contributes a significant amount to Australia’s export earnings and Australia is a large producer of so-called ‘clean coal,’ which has a low ash content and thereby exhibits higher thermal efficiencies and a lower sulfur content, producing less sulfur dioxides and sulfate aerosols, and thus less acid rain. Clean coal’ also refers to the technology used to burn the coal. Clean coal is a vague and misleading concept, underwritten by tenuous claims that it reduces greenhouse gas emissions. However sulfur content is irrelevant to the amount of greenhouse gas emissions (which are based on the carbon content of coal) and sulfate aerosols actually act to briefly suppress global warming and reduce temperatures by one degree Celsius.¹⁸ The ability of ‘Clean coal’ to bring about greenhouse gas emission reductions is negligible in the face of the total emissions associated with coal fired energy generation, and instead represents a ‘business as usual’ scenario. Rather the key to clean energy lies in the renewable sector.

section 2

EFIC BACKS FOSSIL FUELS

EFIC's lavish backing of fossil fuel and fossil fuel technology exports, and heavy support for energy-intensive industries stands in stark contrast against negligible identifiable support for renewables.

EFIC has financed or considered four energy sector projects in the past two years. The combined CO2 emissions of these projects exceeds total emission for Australia as a whole in 2001 and in fact is equal to the combined emissions of Australia and New Zealand for that year. In three cases, the emissions of individual projects exceed the total national emissions for the countries that hold the project fuel reserves.

The financing of coal-based energy projects directly contradicts Australia's stated foreign policy objectives, and its commitments as signatories of the 1997 Kyoto Protocol. Many Asia-Pacific nations are defined as being 'key developing countries' and are the specific focus of international policies aimed at encouraging their meaningful participation in the 1997 Kyoto Protocol. Yet without the benefit of adequate transparency on EFIC's part it is a reasonable assumption that these same countries have been recipients of EFIC-supported coal exports. 100% of EFIC-supported fossil fuel technology exports were to low-income countries. This is true also of EFIC backing for energy intensive sectors such as mining. EFIC is promoting fossil fuel and related technology exports to the exclusion of renewable energy technologies without regard to the consequences of this support upon climate change.

Eleven irresponsible years – 1993-2003

In 1992 at the Rio Earth Summit the industrialised countries including Australia agreed to show leadership by reducing CO2 emissions and facilitating the transfer of renewable energy technology to low income countries. Yet over the course of the next eleven years – 1993 to 2003 – EFIC did the opposite. Analysis of EFIC Annual Reports and other public documentation indicates that EFIC backed fossil fuel and fossil fuel technology exports valued at almost \$7.6 billion. This amounts to around 10% of total exports supported by EFIC over the past eleven years. Coal exports accounted for the lion's share of this at almost \$7.2 billion. Fossil fuel technology exports such as equipment for coal fired power stations and transmission lines totaled around \$439 million. Table 1 displays year-by-year EFIC's support for fossil fuel and fossil fuel technology exports combined. Table 2 follows and extracts year-by-year EFIC's support for fossil fuel technology exports only. More detailed analysis is provided on request from AID/WATCH.

2003, 2004 and beyond... continuing irresponsibility

EFIC continues to back fossil fuel infrastructure developments. With EFIC's increased focus on medium and long term transactions following the sell-off of the short term business (see Section Three) EFIC support for larger-scale projects will increase. Combined, four projects recently financed or considered by EFIC will release 418 million tons of carbon dioxide over their lifetimes. The burning of these fossil fuels will release more carbon dioxide than Australia did as a whole in the year 2001, and in fact is equivalent to the combined emissions from Australia and New Zealand for that year. Individual projects' lifetime emissions also exceed the 2001 annual emissions from three of the four countries that hold the projects' fuel reserves (Mozambique, PNG, Thailand, but not Indonesia).

Carbon dioxide emissions from the consumption and flaring of fossil fuels in 2001:

Country	Million metric tons
Australia	363.3
New Zealand	35.2
Mozambique	1.4
Papua New Guinea	2.6
Thailand	178.0
Indonesia	319.7

Source:
"World Carbon Dioxide Emissions from the Consumption and Flaring of Fossil Fuels, 1980-2001," U.S. Energy Information Agency. See: <http://www.eia.doe.gov/emeu/international/enviro.htm#IntlCarbon>

Project emissions, lifetime:

Mozambique gas pipeline	131
Thailand BLCP coal-fired power plant	229
Indonesia Oyong oil and gas field	9
PNG-Queensland gas pipeline	49

The methodological framework for the following CO-2 emissions estimates may be found at: <http://www.seen.org/pages/db/method.shtml>

Mozambique – South Africa Gas Pipeline

Lifetime carbon dioxide emissions: 131 million tons

Basis: One trillion cubic feet of gas. Sasol of South Africa in 1993 estimated that the Pande gas field, at the pipeline's origin, holds between one and two trillion cubic feet (cf) of gas. (International Gas Report, February 19, 1993)

Note: IFIs and ECAs frequently describe their projects as providing “greenhouse benefits,” when natural gas enters coal-intensive markets. However, unless coal-fired boilers are actually converted or retired to accommodate the new gas, these projects add fossil fuel to an existing energy mix, and represent an additional source of carbon dioxide emissions.

BLCP Power Project (1400MW coal-fired), Thailand

Lifetime carbon dioxide emissions: 229 million tons

Basis: 1400MW of coal-fired power production for 20 years.

Oyong Gas and Oil Field Development Project , Indonesia

Estimated lifetime carbon dioxide emissions: 9 million tons

Basis: According to Australian shareholder CUE, Oyong holds 105 billion cubic feet of “recoverable gas” and 8 million barrels of “proven and probable oil reserves.”

(www.cuenerg.com.au/download/CUE.pdf)

Note: The ADB is also considering finance for this project. See: www.adb.org/Documents/Environment/Ino/ino_oyong_gas.pdf

PNG Queensland Gas Pipeline Project

Estimated lifetime carbon dioxide emissions: 49 million tons

Basis: “The PNG Gas Term Sheet Agreement is for a total supply volume of up to 1000 PJ (Petajoules) of gas to be delivered over 20 years.” (<http://www.agl.com.au/NR/exeres/6745CED5-B7C1-4F6E-9751-42AD18F184F8.htm>) 1000 PJ is the equivalent of 26.3 billion cubic meters of gas. (http://www.energyfacts.com/Gas_Conversion_Measures.htm)

Energy Intensive

EFIC has also received requests for financing for two mining projects – the Gold and Copper Phases of the Sepon Mine in Lao People’s Democratic Republic and the MOMA Mineral Sands Project Mozambique. Both projects in the energy intensive mining sector would be expected to generate substantial CO₂ emissions.

Calculations and analysis provided by Jim Vallette, Research Director, SEEN.

FIRST STEPS TO CALCULATING EFIC’S CLIMATE IMPACT

EFIC provides no public estimate of its institutional climate impact and it’s unlikely that EFIC is aware of its impact. To our knowledge, EFIC has never undertaken a complete analysis of its climate impact. A climate impact analysis would have to include the three following areas.

1. Coal Exports

Analysis of EFIC-backed coal exports alone, suggests that the institution’s impact over the period since 1992 has been massive.

2. Fossil Fuel Technology Exports

Inclusion of the climate impact of EFIC-backed fossil fuel technology exports would be an important step towards a more complete picture of the institution. This would no doubt reveal substantially increased figures. The proposed BLCP Power Project is a case in point. Considering a conservative 20 year lifespan (the plant is due to run for at least 25 years), at full capacity operation the plant will generate 229.4 million tons of CO₂.

3. Institution-wide Analysis

Beyond the energy portfolio, it would be useful for EFIC to provide an analysis of itself overall as an institution. This would cover

the impact of all of EFIC-backed exports, including energy-intensive sectors such as transport and mining, as well as the day-to-day operations of the corporation.

EFIC’S NON-BACKING OF RENEWABLES

EFIC’s identifiable support for renewable technology exports is negligible. As the table below shows EFIC has provided no identifiable support for renewable energy exports in eight of the last 10 years. 1999 saw EFIC provide backing for a single project valued at \$7.2m. 1997 saw EFIC provide backing for two projects worth a combined \$60m.

It is entirely possible that EFIC has financed other renewable energy exports other than those listed above. In a 1997 EFIC document, *Export Finance and Insurance for Environment Enhancing Projects*, EFIC boasted that:

*A reduction in energy usage, particularly the use of fossil fuels, is a critical environmental issue. EFIC has assisted a number of Australian exporters offering more energy efficient solutions for developing countries.*³

However the hope that there are other examples of EFIC backing renewables may be misplaced. In the document above EFIC scrapes the bottom of the barrel by listing the installation of a major coal gasification plant in China as an environment-enhancing initiative. At the beginning of 2002 EFIC had ‘not recently signed any renewable energy facilities’.⁴ Ideally the level of reporting that EFIC provides on an ongoing basis would enable greater transparency with regard to the nature and extent of EFIC’s energy portfolio.

A stronger commitment is needed to redress the significant subsidisation of fossil fuels that EFIC has provided over the years 1993-2002. The Annual Report for 2003 includes no identifiable evidence of support for renewables. The blanket support that EFIC provides for fossil fuels renders the renewable energy sector excluded from accessing the same opportunities. As discussed later, the renewable energy industry requires measures equally tailored to its specifics. For EFIC to open up its energy portfolio to renewable technology requires an acknowledgement that an approach other than business as usual is required.

table 1

FOSSIL FUEL AND FOSSIL FUEL TECHNOLOGY EXPORTS SUPPORTED BY EFIC – 1993-2003

YEAR	VALUE (\$AUD)	% of EFIC total
2003	603,900,000	8%
2002	538,880,000	7%
2001	327,000,000	5%
2000	612,554,301	10%
1999	747,523,892	10%
1998	900,000,000	12%
1997	760,000,000	10%
1996	702,753,958	9%
1995	616,576,748	10%
1994	1,249,370,000	21%
1993	538,200,000	11%
TOTAL	\$7,596,755,900	10%

NOTES:

This Table extracted from Appendix A. Refer to Appendix A for more detailed analysis.

Total exports supported by EFIC 1993-2003: \$74,884,000,000

Sources are limited to information EFIC provides publicly, i.e. Annual Reports, etc.

table 2

FOSSIL FUEL TECHNOLOGY EXPORTS ONLY SUPPORTED BY EFIC – 1993-2002

YEAR	VALUE \$AUD	No. OF FACILITIES	HOST COUNTRIES
2003	-	-	-
2002	-	-	-
2001	32,700,000	1	China
2000	-	-	-
1999	-	-	-
1998	17,513,000	8	China
1997*	63,090,000	17	China, Indonesia, Western Samoa
1996	27,906,000	6	China, PNG
1995	24,787,000	6	China, Malaysia, Philippines, Hong Kong
1994	239,367,000	7	China, Indonesia, PNG, Thailand
1993	33,200,000	3	Malaysia, PNG
TOTALS	\$438,563,000	48	

NOTES:

For more detail see Appendix B from which this Table is extracted.

**1997 – EFIC supported export of nuclear power plant components to China valued at an additional \$16.18 million.*

Sources are limited to information EFIC provides publicly, i.e. Annual Reports, etc.

table 3

CARBON DIOXIDE EMISSIONS OF EFIC-BACKED COAL EXPORTS 1993 - 2003

Year	Value of EFIC-supported coal exports (\$A)	Price of coal \$A/tonne (nominal)	Volume of EFIC-supported coal exports (tonnes)	CO2 emissions of EFIC-supported coal exports (tonnes)
2002-03	603,900,000	57.30	10,539,097	28,560,952
2001-02	538,880,000	67.37	7,998,268	21,675,306
2000-01	-	55.81	-	-
1999-00	633,553,357	47.20	13,421,685	36,372,766
1998-99	773,149,859	54.54	14,176,648	38,418,716
1997-98	882,487,000	58.62	15,055,620	40,800,730
1996-97	696,910,000	54.42	12,805,786	34,703,680
1995-96	697,982,511	56.00	12,463,442	33,775,927
1994-95	612,076,972	50.45	12,132,171	32,878,183
1993-94	1,010,000,000	55.49	18,199,870	49,321,647
1992-93	505,000,000	58.28	8,665,407	23,483,252
TOTAL:				339,991,159

table 4

RENEWABLE TECHNOLOGY EXPORTS SUPPORTED BY EFIC – 1993-2002

YEAR	VALUE \$Am	GOODS	HOST COUNTRIES
2003	-	-	
2002	-	-	
2001	-	-	
2000	-	-	
1999	7.2	Hybrid Energy System	Indonesia
1998	-	-	
1997	23.35	Photovoltaic Cells	Indonesia
	36.91	Stand Alone Solar Power Systems	Philippines
1996	-	-	
1995	-	-	
1994	-	-	
1993	-	-	
TOTAL	\$67.46m		

NOTES:

Sources are limited to information EFIC provides publicly, i.e. Annual Reports, etc.

section 3

EFIC'S ENVIRONMENT POLICY AND CLIMATE – RHETORIC AND REALITY

EFIC's Environment Policy doesn't mention climate. The Policy requires no explicit assessment of the climate impact of any particular project that EFIC may consider involvement in – this is borne out in the absence of any discernible positive change in EFIC's climate behaviour since the inception of the Policy in 2000. Neither is EFIC's whole-of-institution climate impact measured or considered. Given the reality of global warming the 'head in the sand' approach that EFIC has adopted towards climate change is woefully inadequate.

In contrast to EFIC practice, EFIC has attempted to present itself as renewables friendly. The Policy includes the following in relation to renewables:

Promoting Energy and Resource Efficiency

EFIC is interested in supporting operations that promote energy and resource efficiency, renewable resources, cleaner production and waste minimisation. Exporters involved in these technologies are encouraged to approach EFIC regarding financial facilities for their goods and services.

This sentiment in 2000 – repeated in 2001 and again in 2002 in the section of the *Annual Report* devoted to the new Environment Policy – has by 2003 not translated into any identifiable support for renewable energy.

Instead of real recognition of the climate challenge and real commitment to renewable technologies most recently EFIC has argued that its support for a gas pipeline from Mozambique to South Africa is beneficial from a climate point of view.¹

EFIC remains without any targets or programs to support the renewables sector. EFIC notes on its website that it is a member of the Energy Export Council, which includes companies which export green technologies, but defends its ongoing support for fossil fuel projects, stating that '[EFIC] cannot discriminate in our client base and we do not propose to set policy targets, but we have supported green energy projects in the past and we ensure that relevant exporters are aware of our services'.²

EFIC absolves itself of any responsibility by arguing that 'In practice EFIC's business is largely exporter driven.' The reality is that this approach equates with 'business as usual'. It would appear that EFIC's Environment Guidelines were designed to ignore the threat of climate

change and to that end they have succeeded comprehensively. However the climate threat continues to grow and so the challenge for EFIC remains.

The initiatives of other ECAs reviewed in Section 4 highlight the inaction of EFIC on this issue. EFIC lags behind several other ECAs to a greater or lesser extent in the commitment of support to the renewable energy industry. This can only be seen as having negative consequences for Australian exports. By failing to take initiatives similar to the ones following, EFIC is compromising the ability of the Australian renewable industry to compete for lucrative overseas markets, and compromising Australia's chances of developing a strong share in the growing export markets for alternative energy and efficiency.

BARRIERS TO BACKING RENEWABLES

Future export markets for renewable energies have enormous potential,³ yet business-as-usual investment trends are preventing the industry from reaching that potential. While the long-term trend toward increased use of alternative energy sources has continued over the last decade, the speed with which renewable sources grew depended in large part on government policies. It has been recognised that the only barriers to massive uptake and expansion of renewable energy worldwide are financial and political - not technological.⁴

Australia still heavily subsidizes the fossil fuel industry, while offering insufficient financial incentives for companies or individuals to convert to renewable sources. Low prices for fossil fuels such as oil and gas still undermine solar and wind power projects, and these prices fail to reflect the real costs and benefits associated with their respective use. To achieve the substantial role expected of renewables in the future, enthusiasm needs to be harnessed to specific action, and in particular sufficient incentives need to be provided.

Within the domestic sphere the Australian government has begun to acknowledge the importance of support for renewable energy. The government introduced the Commonwealth's Renewable Energy (Electricity) Act 2000 to ensure that by 2010 an additional 9,500GWh per annum of energy generation comes from renewable sources. A key feature of this legislation is the Mandatory Renewable Energy Target it incorporates. Yet while there is domestic legislation, which guarantees market access for renewable energy, there is little assistance to the export industry.⁵

The amount of funding to the renewable energy industry remains "statistically insignificant" in relation to fossil fuels,⁶ particularly given the long history of subsidization of the fossil fuel industry. This trend is more than exemplified in EFIC's support for energy exports despite the fact that these technologies are technically and financially feasible in many places and are often national priorities.⁷ It is also out of step with Australian policy, which has recognised the importance of harnessing renewable energy through strategic support and development for the commercialisation of renewable energy technologies.⁸

Barrier research

A paper for the Institute for Policy Studies and the

Transnational Institute in 2000 identified the following categories of obstacles faced by renewable energy industries that ECAs can and should be focusing on in their activities:

1. **Obstacles that are characteristic of Small and Medium sized Enterprise (e.g. weak balance sheets, small transaction sizes);**
2. **Obstacles that are characteristic of developing countries (e.g. lack of client creditworthiness, currency risk);**
3. **Institutional obstacles (e.g. lack of staff experience with renewable energy projects, support and subsidization for competing technologies);**
4. **Obstacles that are specific to the sustainable energy industry (e.g. lack of investor familiarity, high up-front costs); and**
5. **Wider political obstacles (e.g. lack of regulatory and fiscal incentives to strengthen sustainable energy companies either domestically or overseas).⁹**

How does EFIC measure up against these criteria?

1. Obstacles that are characteristic of Small and Medium sized Enterprise

EFIC is able to discriminate positively and does so explicitly in favour of small to medium-sized businesses. One example of this is EFIC's provision of products explicitly for this sector of potential exporters.¹⁰ EFIC holds 'Support more exports, especially from small- to medium-sized companies' as one of its principal objectives.¹¹ As such EFIC should be well placed to overcome this obstacle. EFIC has also discriminated positively towards rural exporters in the past.

2. **Obstacles that are characteristic of developing countries**
EFIC's core business is overcoming risk associated with export – to both industrialized and developing economies. EFIC should be able to overcome this obstacle also.

3. **Institutional obstacles**

The composition of EFIC's board has historically included individuals with strong previous, ongoing and/or subsequent professional connections to the fossil fuel energy sector as well as energy intensive sectors such as mining. At the senior management level there is no expertise in renewables. At the staff level there is no specialized renewable energy experience. EFIC remains burdened by an explicit weighting in favour of an outdated fossil fuel mentality at the expense of renewable expertise and experience. There is a substantial need for change within EFIC in this area.

4. **Obstacles that are specific to the sustainable energy industry**

As noted at point 1 above EFIC does have the capacity to discriminate in favour of certain groups of potential exporters. This kind of approach needs expanding to address the unique requirements of renewable energy technology financing.

5. **Wider political obstacles**

Where EFIC could make a significant contribution is through acknowledging its own role in contributing to climate change and acting to reverse the impact of decades of irresponsible subsidization of fossil fuels. As a statutory corporation EFIC is bound by specific legislation passed through Federal Parliament. It may be that EFIC is incapable of rectifying its performance and that legislative change will be required. Where EFIC could show some initiative is by providing sound advice to the Minister for Trade as regards its climate impact coupled with recommendations for addressing impact.

EFIC's Board – fossil fuel heavy and minimal renewables experience

Over the past 10 years EFIC's Board has been weighted in favour of fossil fuel and fossil fuel technology experts. The Board has comprised members with corporate connections across the fossil fuel spectrum: coal, oil and gas. The Board has also representation of members with corporate connections to financing for major fossil fuel developments. The Board has also comprised members with corporate connections to fossil fuel intensive sectors such as mining and transport. Other Board members have had previous and ongoing links with industry bodies and think tanks that have maintained strong positions against action in response to climate change. Over the same period there is no identifiable specialist experience at the EFIC Board of development or export of renewable energy technologies.

For more information, see Board Matrix page 16.

DIVESTMENT OF EFIC'S SHORT TERM EXPORT CREDIT BUSINESS – CAN EFIC MEET ITS CLIMATE RESPONSIBILITIES?

The Federal government late last year announced the sale of EFIC's short term credit business to the giant Dutch-German Insurance conglomerate, Gerling NCM. Short-term credit insurance comprises the vast bulk of the value of EFIC's business – \$6.6 billion out of a total of \$7.2 billion of exports supported in 2001-2002. The government has announced that a small short term credit facility will be retained through the National Interest Account.

This account is operated by EFIC for and at the discretion of the Minister for Trade. The government has previously indicated that if this goes ahead it may choose to provide ongoing public support for particular segments of exporters, for example:

- Smaller exporters
- Exporters in rural and regional areas.¹²

Combined with the current review of the Environment Policy an opportunity exists now for EFIC to grasp with both hands the chance to change with respect to greenhouse gas emissions. It is critical that EFIC meets its climate obligations irrespective of the changes brought about through the sale of the short term credit business.

matrix of board members and fossil fuel links

MATRIX OF DIRECTORS' FOSSIL FUEL, FOSSIL FUEL TECH. AND ENERGY INTENSIVE INDUSTRIES CONNECTIONS OVER THE 1993-2003 PERIOD

1. **Yasmin Allen Member 2002+** Fossil Fuel Financing

Yasmin Allen is currently a director of ANZ Investment Bank. ANZ Investment Bank is one of 5 international banks reported to be backing the massive 1400MW Map Ta Phut coal fired power station for Rayong Province in Thailand. The plant will rely on coal imports from Australia and also Indonesia and will produce in excess of 229.4 million tonnes of CO2 emissions over the 25 year period of the electricity supply contract. EFIC is one of three public agencies that were approached to provide financing (loans and political risk insurance) for the private banks involved in the project.

2. **Ian Knop Member 2002+** Power Sector

Ian Knop is a Director of Aurora Energy. Aurora Energy is an energy distributor and retailer.

3. **Mark Patterson Member 2002+** Industry body opposing ratification of the Kyoto Protocol

Mark Patterson was previously Chief Executive of the Australian Chamber of Commerce and Industry. The ACCI continues to oppose Australian ratification of the Kyoto Protocol. ACCI wants developing countries to also be included under Kyoto.

4. **Russell Higgins Government Member then Member 1997-2002** Energy Policy

Russell Higgins was Secretary of the Department of Industry, Science and Resources. Higgins has heavy integration in fossil fuel sector through involvement in government resources and energy policy, working for the OECD, chairing APEC Energy meetings and leading Australian delegations on minerals and energy consultations.

5. **John Hartley Poynton Member 1998-2001** Fossil fuel distribution

John Poynton has since become a Director of Alinta Ltd, involved in natural gas distribution and sales.

6. **(Kenneth) John Down Member 1997-2000** Fossil fuels and mineral exploitation

While on the EFIC Board John Down was also a director of a several fossil fuel and mineral exploration companies. These included: South Blackwater Coal Ltd (coal mining); Santo Ltd group companies (oil and gas exploration); QCT group companies (coal mining), and; Anaconda Nickel Ltd group companies (mineral exploration and mining).

7. **(Geoffrey) Michael Folie Member 1995-1998** Fossil fuels, 'climate sceptic' think tank and industry bodies opposed to ratification of the Kyoto Protocol, energy intensive industries

While on the EFIC Board Michael Folie was a director of the Institute for Public Affairs, a think tank with a 'climate sceptic' stance in relation to climate change. Previous to and during his time with EFIC, Folie was an Executive Director of Shell Australia, involved in all of Shell's operations, including oil products and refining. Folie is currently on the board of InterOil, involved in oil exploration and refining.

Folie was also on the Executive Committee of the Minerals Council of Australia. The MCA has consistently lobbied hard against meaningful measures to address Climate Change. Recently it has changed from opposition to a neutral position to the Kyoto Protocol. Folie was also the Executive Council of the Chamber of Minerals and Energy of Western Australia. The CMEWA remains opposed to ratification of the Kyoto Protocol. Folie was also a Director of Acacia group companies (gold mining), since taken over by AngloGold.

8. **Grahame David Campbell Member 1994-1998** Fossil fuels, fossil fuels engineering, energy intensive industries

While on the EFIC Board Grahame Campbell was Managing Director and Chief Executive Officer of CMPS&F Pty Ltd, (later Egis Consulting), which in conjunction with Energy Equipment Pty Ltd exported a coal gasification plant to China with EFIC support in 1994. The company provides engineering services including to the oil and gas sector.

Campbell is currently a Director of the Worley Group which provides engineering design and project services to the following sectors: oil and gas; minerals and metals, refining; petrochemicals and chemicals; pipelines and terminals; industrial and infrastructure; power and water.

During his time at EFIC Campbell was also Director of Statewide Roads Ltd, involved in tollway construction.

9. **Andrew Forrest Member, Audit Committee 1994-1997** Financing for oil, gas and mining sectors, energy intensive sector,

While serving at EFIC Andrew Forrest was also Deputy Chair and Chief Executive of Anaconda Nickel N.L., involved in mineral exploration and mining. Forrest was also Chairman of Far East Capital Pty Ltd, a resources investment bank to Australian and overseas companies in the oil, gas, mining, gold, base metals and agriculture sectors.

10. **Nicholas Richard Whitlam Member, Deputy Chairman +1995** Financing for oil, gas and mining sectors, energy intensive sector

While serving with EFIC Nicholas Whitlam was Managing Director of Asian Capital Partners. Media reports from that time note ACP's involvement in financing fossil fuel and energy intensive sector infrastructure in Australia and overseas.

11. **Robert John Wilde Member +1994** Fossil fuel sector engineering, mining

Robert Wilde was a Director of Minproc group companies (services to energy, mining, chemicals sectors) while serving at EFIC. Wilde was also a Director of Macraes Mining Ltd, a gold miner (now owned by GRD N.L.).

section 4

RECOMMENDATIONS TO EFIC – A CALL FOR CHANGE

The following recommendations constitute essential elements of a comprehensive policy necessary for EFIC to meet its climate responsibilities. At the foundation of this shift is the requirement that EFIC understand and acknowledge the importance of and make a commitment to climate justice – a transition to supporting renewables without this being at the expense of people and communities in low income countries. This translates into action in three broad areas:

- A. Transparency, carbon disclosure and targets**
- B. Phase out support for fossil fuels and fossil fuel technology**
- C. Phase in support for renewables**

A. TRANSPARENCY, CARBON DISCLOSURE AND TARGETS

EFIC has over its lifetime provided significant levels of financing to carbon intensive exports. Exactly how much support is unknown. This has been without consideration of the climate impact of such exports and so the climate impact of this support is also unknown. It's imperative that EFIC fills the knowledge gap regarding its overall climate impact as an institution.

1. Commission a review on the number, dollar value, nature and CO2 emissions associated with exports of fossil fuels and fossil fuel technology over the course of EFIC's lifetime to date. In so doing, provide a carbon disclosure for EFIC over this period. In this way EFIC will be able to make public a clear and accurate picture of the extent of EFIC's role in climate change. There are methodologies available to determine institutional climate impacts.
2. On an ongoing basis, include in EFIC's Annual Report as a matter of course EFIC's climate impact including:
 - The value, number and nature of fossil fuel exports per year,
 - The names of fossil fuel exporting companies that receive EFIC support,
 - The value, number and nature of fossil fuel technology exports per year – extraction AND burning. For fossil fuel extraction it is critical to account for lifetime emission from the project – i.e. emissions direct from the project as well as emissions resulting from delivery to market and the burning of those fossil fuels,
 - The names of fossil fuel technology exporting companies that receive EFIC support – extraction AND burning.
3. Make public projected climate impacts of proposed Category A projects. Note that due consideration of the climate impact of proposed projects would also lead to some shifting of proposed projects from category 'B' to category 'A'.
4. Provision of climate information to communities that stand to be affected by proposed EFIC-supported projects.
5. Whole-of-institution targets towards a phase out of support for fossil fuel and fossil fuel technology exports and a phase in of support for renewables.
6. Push for international standards. Common standards across ECAs are essential for a sustained global shift to renewable energy. EFIC should firmly commit to the process of developing common environmental and social standards across ECAs. Common environmental and social standards negotiated at the OECD should be placed within a context of seeking to eliminate support for unsustainable energy technologies. These standards should be used as a first step in the phase out of support for unsustainable energy technologies.

B. PHASE OUT SUPPORT FOR FOSSIL FUELS

EFIC should no longer fund coal fired power plants in any way, given their carbon intensity, serious human health consequences, and other environmental problems associated with the burning of coal, and given the abundant availability of private financial support for these projects.¹ Support for these projects sends the wrong signal to policymakers in developing countries² and is in contradiction to foreign policy that seeks to engage developing countries in a movement away from future and long term fossil fuel dependency. 'Exporter driven business' does not equate with 'support sustainable development' and is instead more akin to 'business as usual'. Given the support that EFIC has provided for fossil fuels and the lack of support for renewables this is unacceptable. If EFIC does support sustainable development as it claims, then it should do so with integrity.

7. Deep cuts – EFIC commit to 80% cut in group carbon emissions compared to 1990 levels by 2050.

8. EFIC make an explicit commitment to phase out support for fossil fuel and mining projects by December 2006 (within three years), as per the Friends of the Earth International call on International Financial Institutions at January 2002.

9. Begin this process with a moratorium on support for investment in fossil fuel and energy intensive projects. This moratorium would allow for:

- The establishment of a strict ban on financing for any new fossil fuel and minerals exploration projects in areas of high conservation value, territories of indigenous peoples and nations, areas where local communities oppose such projects, and areas where investments will exacerbate armed conflict.

- A detailed re-evaluation of all pending projects which have an impact on the areas mentioned above, with the objective to find better alternatives for these projects or to cancel the project when no such alternatives exist.

- Development of concrete action plans for a complete phase-out of financing for these types of projects. These plans should systematically identify policies and projects that help phase-in a positive targeted energy lending shift.

C. PHASE IN SUPPORT FOR RENEWABLES

Accept and use a definition of renewables as wind, solar, small hydro and thermal and biomass. Accept that a scale dimension will be important – large scale technologies, irrespective of their climate dimension can have a negative impact from the point of view of climate justice.

10. Commit to a target of 20% of total exports and overseas investments supported by EFIC being dedicated to renewable energy by 2010. This target to rise to 30% by 2020.

11. Institute a Renewable Energy Advisory Committee for EFIC with NGOs, industry and government at the table working towards reforms that will increase support for renewables.

12. Proactively identify and support the potential of growth in this sector for the Australian industry.

POLICY ALTERNATIVE: ABOLISH EFIC

The Gerling NCM alliance with EFIC provides a potential opportunity to close down EFIC completely if EFIC is not able to commit to its climate responsibilities. This course of action should be considered thoughtfully. We are hopeful that EFIC has the capacity to meet this challenge and look forward to monitoring the path that the institution follows. EFIC is currently an institution that is a significant contributor to climate change. As such EFIC is well placed to grasp the opportunity to reverse this. This is more than an opportunity and is in fact a responsibility. Should EFIC fail to reform in the face of change and fail to exploit commercial opportunities speeding the transition to sustainable energy economies, then EFIC's reticence will be actively impeding progress. Given the increasingly critical nature of social and environmental problems resulting from energy sector investment – climate change being one example - such a dinosaur outlook cannot justify continued public support. If EFIC refuses to dismantle archaic and increasingly irrelevant investment practices then EFIC should be abolished.

section 5

Calls for change

Calls for a decrease of fossil fuel funding and an increase in the renewable sector have been coming from all corners of society. Although varied in the calls, business, civil society and governments around the world are challenging for ECAs to address their climate impacts. The following list is not by any means exhaustive has been collated to reflect the growing movement internationally on this issue.

GOVERNMENT

The Group of 8 (G8) Renewables Task Force

In 2000 the G8 established the Renewable Energy Taskforce, composed of industry and government representatives and jointly chaired by Mark Moody Stuart, then CEO of Shell International and Corrado Clini, Director General in the Italian Ministry of Environment. The Taskforce was charged with delivering a strategy to promote the uptake of renewable energy in developing countries.¹

The report focused on the need for ECAs to shift from supporting energy projects with a climate footprint. The report called upon export credit agencies to identify criteria to assess the local and global environmental impacts of energy projects and establish minimum standards of energy efficiency and carbon intensity. The report noted that simply supporting renewable energy was not enough: subsidies for conventional energy must be reduced simultaneously.²

BUSINESS

European Renewable Energy Council (EREC)

The European Renewable Energy Council has recently begun advocating for European ECAs to actively support exports of European renewable energy technology. This is detailed and available in the EREC document European Renewable Energy Export Strategy (2003), available at www.erec-renewables.org.

CIVIL SOCIETY

US lawsuit

Friends of the Earth, Greenpeace, and the city of Boulder, Colorado are currently suing the US' two ECAs – the Export-Import Bank (Ex-Im) and the Overseas Private Investment Corporation (OPIC) for illegally funding international fossil fuel projects that are causing global warming related impacts on U.S. citizens. Ex-Im and OPIC are charged with funding \$32 billion worth of fossil fuel projects while failing to comply with the National Environmental Policy Act (NEPA), which requires them to assess impacts to the U.S. environment of all funded projects. The lawsuit is an attempt to compel the U.S.

government to do what many state and local governments are already doing - taking immediate and effective action to prevent global warming.

Jakarta Declaration

The Jakarta Declaration, a call for reform of ECAs launched in 2000 and endorsed by around 350 NGOs around the world includes the following in relation to climate:

...ECAs must conduct full, transparent accounting for climate change impacts and move to increase investments in sustainable renewable energy.

Friends Of The Earth International – call for phasing out IFI financing for fossil fuels and mining

Friends of the Earth International, a federation of more than 70 environment groups around the world published in 2001 Phasing out International Financial Institutions financing for fossil fuel and mining projects. The position paper concludes with the following call to all International Finance Institutions – that is, Multilateral Development Banks and Export Credit Agencies:

*Export Credit Agencies have been documented to finance the environmental and social destruction of local communities and to exacerbate long-term global climate change. ECAs must begin meaningful transformation towards binding environmental standards and portfolio shifts away from fossil fuels and towards renewable energy within two years, or they should be abolished. Accomplishing these changes will require leadership by the management and action by the Board of Directors of each MDB, and by the controlling government institution for each ECA. To implement such a phase out effectively, IFIs should make use of existing cooperative mechanisms among themselves to generate harmonized approaches.*³

World Wildlife Fund and Institute for Policy Studies Call for Financing for Renewables

The World Wide Fund for Nature and the Institute for Policy Studies published Credit where it's Due: The Role of Export Credit Agencies in Promoting Sustainable Energy. The report's conclusions and recommendations are reproduced here:

While good opportunities for the deployment of [Sustainable Energy Technologies] SETs already exist in developing countries, obstacles to investment related to investor perception and institutional limitations as well as to structural issues in the SET sector impede the realization of such opportunities. ECAs can easily play a role in accelerating the deployment of sustainable energy technologies in developing countries by addressing these obstacles.

Addressing generic obstacles associated with SME exports and commercial activity in developing countries should be achievable within the existing mandate for ECAs given that these issues are not related uniquely to SET exports. However, ECAs must take steps to ensure that their SME activities in developing countries are supported by better outreach and marketing to the SET industry. Within their current mandate, ECAs can also address institutional obstacles, for instance by hiring new staff with experience in the SET sector and improving the

environmental and social eligibility threshold for investments they support.

In order to address obstacles that are specific to SETs, ECAs will have to develop tailor-made products in consultation with the SET industry. Some initial suggestions are included in Annex 1. Subsequent to consultation, this suggests that ECAs will have to negotiate common financial terms of engagement for SETs, as they have done for power plants and project finance.

Finally, overcoming wider political obstacles will require joined-up thinking across several policy areas, not just ECA policy. However, with particular reference to ECAs, governments should require that ECAs phase out support for energy technologies and investment in energy projects that are not sustainable. The phaseout should begin immediately.

Measures to be undertaken immediately

- ECAs provide maximum repayment terms available under existing guidelines to support SET exports.
- ECAs systematically consult with and target the SET sector when designing and marketing their products, especially SME products.
- ECAs introduce portfolio targets for SET support.
- Common environmental and social standards negotiated at the OECD are placed within a context of seeking to eliminate support for unsustainable energy technologies. These standards should be used as a first step in the phase-out of support for unsustainable energy technologies

Measures to be completed within a year

- Staff capacity is improved, through programmes to train existing staff and recruit new staff with experience in the SET sector. Each ECA has staff members dedicated entirely to the SET sector.
- ECAs offer concessionary rates for SET projects (e.g. in the form of 'SME Plus' programmes) that are negotiated multilaterally to surpass those offered for other energy technologies.
- Safeguards against tied aid and technology dumping are introduced by developing instruments to promote joint ventures.

Measures to be completed within two years

- ECAs end all support for unsustainable energy technologies.
- ECAs are reformed to support private sector investment within the context of an explicit sustainable development mandate to which they can be held accountable.

In conclusion, ECAs can and should support the deployment of sustainable energy technologies through the integration of environmental and social objectives, including climate change mitigation, in programme and project design and implementation. Without such integration, export credits will continue to reinforce unsustainable business-as-usual investment practices with negative impacts not only in developing countries, but also in OECD member states. Developing countries are being locked into a path of fossil fuel-driven development based on centralised energy systems while opportunities for technology leapfrogging and the promotion of promising OECD industries are systematically underestimated and overlooked. Export credit agencies can clearly do more to promote sustainable energy, both on their own, and with greater political support and intervention.

If ECAs are unable to shift current mandates in response to changes in global market priorities and government policy, then in effect they are acting as an anchor against the drive for sustainable development, for example in the fight against climate change. Such inflexible institutions clearly should not benefit from the support of the public purse – ECAs must adapt to survive.

INITIATIVES OF OTHER ECAS AND DEVELOPMENT BANKS

Within the overall context of climate policy inadequacy a number of ECAs and other IFIs have made climate initiatives – there has been some acknowledgement of the need to divert resources to support renewable energy technologies. In doing so these peer institutions to EFIC have shown that an organisation such as EFIC has the capacity to work towards meeting the climate challenge. However no other ECA or multilateral development bank does enough. While two IFIs measure and report on greenhouse gas emissions annually of the projects they finance only one has a target for support to renewables as a proportion of its overall energy portfolio. Thus the opportunity to leapfrog other institutions and so become a world leader on climate awaits for EFIC to grasp.

Export Import Bank (Ex-Im) and the Renewable Energy Exports Advisory Committee

The Export Import Bank of the US set up a Renewable Energy Exports Advisory Committee in June 2002 to provide recommendations to Ex-Im's Board of Directors towards improving the Bank's effectiveness in exporting renewable energy technologies and projects.⁴ The Bank's objective was to form a panel of outside advisors to obtain insight into the global renewable energy market and how Ex-Im could increase support for exporters in

this industry. This included addressing program changes, new products, financing, and how to improve outreach to exports and potential foreign buyers. The Committee included membership drawn from a range of renewable energy industry bodies.

Recommendations of the Committee were grouped into action for Ex-Im to take unilaterally and action for Ex-Im to take in concert with other US Government agencies and outside organisations. Key recommendations of the Committee included:

The Ex-Im Board commit to developing an annual strategy in consultation with the renewable energy industry for the Bank to meet its goal of 10% of energy sector financing be directed at renewable energy and energy efficiency-related goods and services;

Ex-Im demonstrate an organizational commitment to a closer working relationship with the renewable energy sector including support for trade missions, linkages to websites, increasing the number of Bank staff devoted to renewable energy exports.⁵

Since the beginning of fiscal year 1999, Ex-Im Bank has tracked the estimated amount of carbon dioxide emissions from projects it supports in the power sector and, to the extent practical, from projects in other sectors that may cause significant production of CO₂. The estimated annual amount of the aggregate greenhouse gases from these projects is reported annually in Ex-Im Bank's Annual Report.⁶

EX-IM has an 'Environmental Exports Program' designed to increase the institution's level of support for environmentally beneficial good and services. This is a more general program which has benefits for promotion of renewables.⁷ By itself, the EEP does not create sufficient market assistance to significantly drive down market barriers for renewable energy systems.

EX-IM's Charter was revised in the early 90s to authorize the EX-IM Board to grant or deny support for a project based on environmental grounds (projects must stand the test of commercial viability also.)⁸

European Bank for Reconstruction and Development (EBRD)

The EBRD last year commissioned a *Strategic Assessment of the Potential for Renewable Energy in the EBRD's Countries of Operation*.⁹ The Bank operates in 27 countries across Eastern Europe and the former Soviet Union. The final report released in April 2003 provided an assessment of the energy state of play in those countries and identified the potential for growth of a range of renewable energy technologies. The report then provided

indications for where the EBRD could best focus its efforts to promote renewables. The EBRD is a development bank and so the mission of that institution does not mirror that of EFIC. Nonetheless the experience reveals possibilities for an IFI such as EFIC towards greater support for renewables.

Overseas Private Investment Corporation (OPIC)

Climate Change Reporting: in an effort to support the management of global greenhouse gas emissions, OPIC tracks and reports, on an aggregate basis, the annual greenhouse gas emissions from its power sector projects. OPIC also tracks and reports, on an aggregate basis, the annual greenhouse gas emissions from other greenhouse gas emitting projects to the extent an appropriate framework is available. Aggregate tracking results are available to the public and reported annually to Congress in OPIC's Annual Environmental Report.¹⁰ The methodology OPIC uses has attracted criticism for being overly narrow.¹¹

Joint Implementation: to encourage U.S. companies, particularly small business, to participate in efforts to reduce global greenhouse gas emissions, OPIC provides customized pricing for small business projects intended to reduce such emissions, in particular those projects certified by the U.S. Initiative for Joint Implementation - the sharing of technology and resources, particularly transfers from Developed to Developing nations, to limit and reduce GHG emissions. OPIC claims it will continually strive to make its portfolio more climate friendly by proactively seeking renewable energy projects and by seeking to harmonize its approach to climate change issues with that of other U.S. Government entities.

United States Department of Energy (DOE) and OPIC announced in December 1999 the US Africa Sustainable Energy Program. DOE and OPIC have partnered to create a program to meet the goal of both agencies to promote sustainable energy development and support the economic and social development of Africa.

The US-Africa Sustainable Energy Program advances DOE's interest in expanding the international market for US clean energy technologies and services, developing cooperative projects that address climate change issues, promoting energy and environmental security, and facilitating the creation of a new stream of financing for clean energy projects which currently encounter great difficulties.¹²

The World Bank Group's Extractive Industries Review

The World Bank Group commissioned a review of Bank involvement in extractive industries to consider if or how Bank involvement in such industries had contributed to poverty alleviation or sustainable development. The Review's Final Report, three years in the making, recommends that the Bank can make permanent its non-involvement in coal projects and phase out all support for oil projects by 2008. In the intervening years the Bank should annually move 20% of its energy lending portfolio from fossil fuels to renewable energy projects. The Bank is presently in considering these and the other recommendations of the Review.

endnotes

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AID/WATCH

AID/WATCH is a community-based, not for profit, activist group that campaigns on Australian involvement in overseas aid and trade projects, programs and policies. As we 'Monitor the Development Dollar', we work to ensure that aid money reaches the right people, communities and their environments.

Our mission: To support people and communities in low-income countries to determine their own development futures; to ensure that aid money reaches the right people, communities and their environments, and that aid projects are implemented with stringent environmental, ethical, social and cultural guidelines.

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The Mineral Policy Institute

The Mineral Policy Institute (MPI) is an Australian-based non-government organisation specialising in advocacy, campaigning and research to prevent environmentally and socially destructive mining, minerals and energy projects in Australia, Asia and the Pacific.

MPI's key activities are: the production of 'politically engaged' research analyzing and exposing the social and environmental benefits of the minerals and energy industries; raising community awareness around minerals and energy issues, and; supporting and building capacity of communities, activists and community groups to intervene strategically to prevent harmful projects, and effect changes in policy, law and institutional behaviour.

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