Ending fossil fuel support: the way forward
NGO recommendations for OECD countries on their Export Credit Agencies

May 2014

Summary of key recommendations

- **OECD countries should immediately and publicly commit to end all forms of ECA support for high carbon projects, including coal plants, mines and associated infrastructure;**
- **To ensure common consistent action of developed countries, they should also support a multilateral OECD agreement to effectively prevent any support for high carbon projects, including coal plants, mines and associated infrastructure from OECD Export Credit Agencies.**

A rapidly changing context

1. Climate action more pressing than ever

In September 2013, the Intergovernmental Panel on Climate Change (IPCC) – the most authoritative global scientific body on climate change - released its Fifth Assessment Report, providing undeniable facts on human causes of climate change - making the fight against climate change more pressing than ever. In March 2014 a new IPCC report was published from Working Group II on Impacts, Adaptation and Vulnerability, supporting the urgency for action by laying out clearly the effects of global warming.

The world is preparing the **future COP21 of the UNFCCC** (Conference of the Parties, United Nations Framework Convention on Climate Change) scheduled for Paris in 2015, that must reach a vital global climate agreement.

As United Nations' Secretary General Ban-Ki-Moon says, "We need to limit global temperature rise within 2 degrees Celsius above pre-industrial levels. This is what the international community has agreed as the upper limit of safety. Beyond 2 degrees, the consequences will be unpredictable, highly dangerous and perhaps irreversible" [1].

Fossil fuel reserves are far bigger than what our climate can afford: according to the International Energy Agency (IEA), **at least two thirds of proven fossil fuel reserves need to stay underground** (IEA World Energy Outlook 2012). In addition the IEA stated that to have about a 50% chance of staying within a 2°C global temperature rise, **only zero-carbon utilities and infrastructure should be developed beyond 2017** since 80% of cumulative emissions allowable between 2010 and 2035 are already locked-

[1] Washington, DC, 11 April 2014 - Secretary-General's remarks at Climate Leaders Summit, http://www.un.org/sg/statements/index.asp?nid=7592

into existing power plants, factories, buildings and services, unless existing infrastructure is scrapped before the end of its economic lifespan, which is highly unlikely (IEA World Energy Outlook 2011).

What climate science requires in term of public finance for energy is very clear: it must urgently be shifted from fossil fuels to renewable energy and energy savings. In addition to mitigating climate change, huge co-benefits will materialise:

- health benefits from cleaner air[2];
- millions of green jobs from clean energy[3];
- biodiversity conservation from avoiding fossil fuel transport risks, upstream mining and exploitation;
- improved energy independence, and sovereignty and stronger resilience to external shocks.

As stated in the March 2014 IPCC report, to be in line with the 2° climate change limit, annual investments in conventional fossil fuel power plants over the next two decades (2010 to 2029) have to decline by an average 30 billion US $a year, and annual investments in extraction of fossil fuels have to decline by an average 110 billion US $[4]. Coal is the most carbon intensive fossil fuel and several countries have already moved to end public finance for coal. This initiative should be extended by ending support for all fossil fuels and high carbon projects.

2. Breakthroughs to end public support for coal

Since 2013 things are moving very fast to end public support for coal globally:

- In June 2013, U.S. President Obama announced his Climate Action Plan that included a commitment to end US support for public financing of new coal plants overseas, with some exemptions[5]. It was implemented in October with a new US government policy on Multilateral Development Banks and coal-fired power generation [6];
- In July 2013, the World Bank announced a phase-out of coal support (with rare exemptions);
- That advancement was followed in July by the European Investment Bank[7], the biggest multilateral bank worldwide, that set up an Emission Performance Standard of 550 g CO_2/kWh for fossil fuel power plants, effectively ruling out all coal projects except those with Combined Heat and Power or with biomass co-firing;
- In September 2013, the 5 Nordic governments of Denmark, Finland, Norway, Sweden and Iceland issued a joint statement with the US government committing to ending public financing for new coal-fired power plants overseas, except in rare circumstances[8];

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[2] World Health Organisation new estimates show that in 2012 around 7 million people died - 1 in 8 of total global deaths – as a result of air pollution exposure. This finding more than doubles previous estimates and confirms that air pollution is the world's largest single environmental health risk. Much of the burden results from burning of fossil fuels, mainly coal. See http://www.who.int/mediacentre/news/releases/2014/air-pollution/en/

[3] The renewable industry already employs 5,7 million people globally and the figure is booming. Renewables create 1,9-3,2 times more jobs per million of US$ invested, and 1,5-7,9 times more jobs per unit of electricity produced (GWh). Sources REN21 and Pollin, Heintz and Garret-Peltier, *The Economic Benefits of Investing in Clean Energy*.

[4] IPCC Working Group III – AR 5, Summary for Policymakers, Mitigation policies and institutions, Changes in annual investment flows 2010-2029, March 2014

[5] http://www.whitehouse.gov/photos-and-video/video/2013/06/25/president-obama-speaks-climate-change

[6] http://www.treasury.gov/resource-center/international/development-banks/Documents/CoalGuidance_2013.pdf

[7] http://www.eib.org/attachments/strategies/eib_energy_lending_criteria_en.pdf

[8] http://www.whitehouse.gov/the-press-office/2013/09/04/joint-statement-kingdom-denmark-republic-finland-republic-iceland-kingdo

- The UK government made a similar statement in November[9], covering Multilateral Development Banks and UK Official Development Assistance;
- In December, the European Bank for Reconstruction and Development (EBRD) ended coal support except in limited circumstances[10];
- **In December as well, implementing President Obama's statement, the U.S. Export-Import Bank became the world's first Export Credit Agency to adopt a policy curbing coal plant financing except in limited circumstances. Also in December the Overseas Private Investment Corporation (OPIC, the US government's development finance institution)[11] issued a draft policy to end most financing for high carbon intensity power plants abroad**. Since then, the US rejected support for a 1,200 MW coal plant in Vietnam and a 800 MW coal plant in Ukraine;
- In March 2014, the Dutch government joined the US coal ban[12], covering their bilateral development finance institution and Multilateral Development Banks. About export credits they added: "Complementing action already taken by the United States, our two countries are working together to promote a technology-neutral standard in the OECD Export Credit Group that limits support for high carbon intensity power plants by export credit agencies".

In October 2013 the OECD Secretary General Angel Gurría asked "every government" to put into question domestic and overseas support for coal[13].

He was followed by the Executive Secretary of the UN Framework Convention on Climate Change (UNFCCC) Christiana Figueres in November 2013, asking to "close all existing subcritical plants, to implement safe CCS on all new plants, even the most efficient, and to leave most existing reserves in the ground" [14].

At the January 2014 World Economic Forum in Davos, Secretary General Angel Gurría called for governments to reform fossil fuel subsidies and to address incoherent and inconsistent policies, both of which encourage harmful fossil fuel production and consumption. Subsequently, ECA-Watch and 33 civil society organizations wrote to Secretary General Angel Gurría calling on him to achieve this dual goal by intervening with OECD member states' Permanent Representatives and Ministers to end export credit agency financing for coal and other fossil fuels.[15].

3. Private sector standards on fossil fuels

Some private banks are developing and applying policies to shift away from fossil fuels:
- BNP Paribas and Royal Bank of Scotland introduced some limitations on financing mountaintop removal coal companies;
- West LB required applicants to provide third party expert reports confirming that there is no feasible, less greenhouse gas intensive alternative than coal.

The move is recently accelerating and deepening:

[9] https://www.gov.uk/government/news/uk-urges-the-world-to-prepare-for-action-on-climate-change-and-puts-brakes-on-coal-fired-power-plants
[10] http://www.ebrd.com/pages/sector/powerenergy/energy-strategy.shtml
[11] http://www.opic.gov/doing-business-us/OPIC-policies/environmental-social-policies
[12] http://www.rijksoverheid.nl/documenten-en-publicaties/convenanten/2014/03/24/joint-statement-by-the-united-states-and-the-netherlands-on-climate-change-and-financing-the-transition-to-low-carbon-investments-abroad.html
[13] http://www.oecd.org/about/secretary-general/The-climate-challenge-achieving-zero-emissions.htm
[14] http://unfccc.int/files/press/statements/application/pdf/20131811_cop19_coalassociation.pdf
[15] See March 25, 2014 letter to OECD Secretary General from ECA-Watch and 33 civil society organizations

- In 2013, JPMorgan Chase and Wells Fargo took steps to reduce their exposure to the coal industry by phasing out financing relationships with the largest producers of mountaintop removal coal;
- In 2013 as well Goldman Sachs pulled its investment in the proposed Bellingham coal export terminal[16].

The huge export credit support to coal overseas

1. The role of Export Credit Agencies

Official Export Credit Agencies (ECAs) provide government-backed guarantees, insurance and loans to private corporations from their home country, helping them to do business abroad, particularly in financially and politically risky countries, and to export to all sorts of projects including risky ones that might never otherwise get off the ground. Most industrialized and emerging countries have at least one ECA[17].

Policies of OECD member ECAs are decided by each member government individually, but have to stay within the parameters of the OECD Arrangement on Guidelines for Officially Supported Export Credits, the EU ECA Regulation of December 2011[18] and the OECD Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence. The OECD regulations and policies are decided within the OECD Export Credit Group[19], the international forum to discuss and decide common principles for official export credits.

2. Support for coal by of Export Credit Agencies from OECD countries

According to data compiled by the Natural Resources Defense Council (NRDC), between 2007 and 2013 public financial institutions provided at least $55,7 billion in funding for coal projects abroad. **The largest proportion of this comes from national Export Credit Agencies (ECAs) from OECD countries, which have provided at least $32 billion over this period or 58% of total support [20].**

In addition, given that several Multilateral Development Banks and national development finance institutions ended their coal support overseas, the remaining public financing for coal overseas will be even more heavily skewed towards Export Credit Agencies in the next years.

Chinese support for coal overseas is a fraction of what OECD ECAs support[21].

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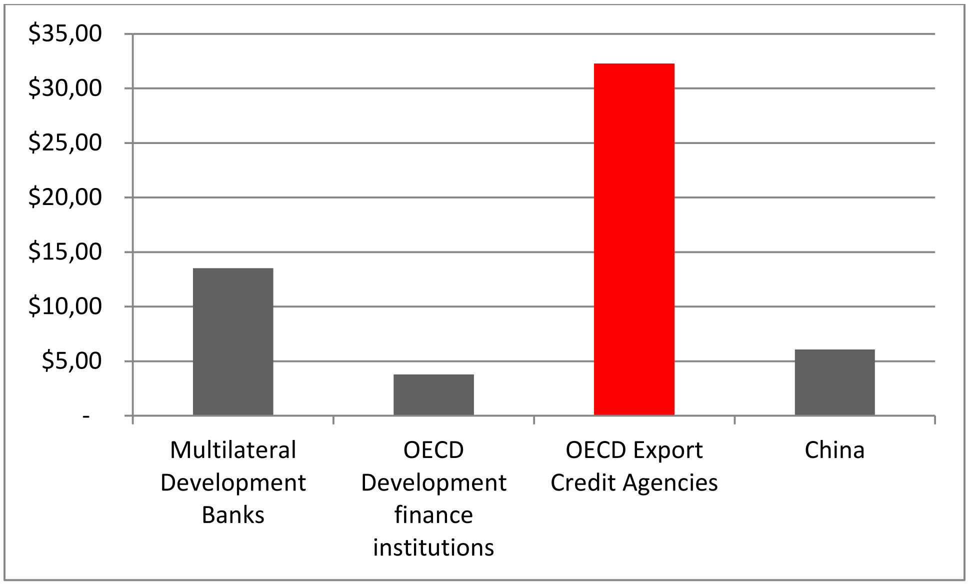
[16] Rainforest Action Network, Extreme investments, extreme consequences – Coal finance report card 2014, April 2014
[17] For more information on ECAs see http://www.eca-watch.org/
[18] http://www.fern.org/sites/fern.org/files/shadow%20report.pdf
[19] http://www.oecd.org/tad/xcred/
[20] These staggering statistics probably under-estimate the total amount due to lack of reporting by many of these shadowy institutions
[21] Note that data collected by the Natural Resources Defense Council is likely understated for China as access to data is very limited

Public financial support for coal overseas 2007-2013 (billion US $)



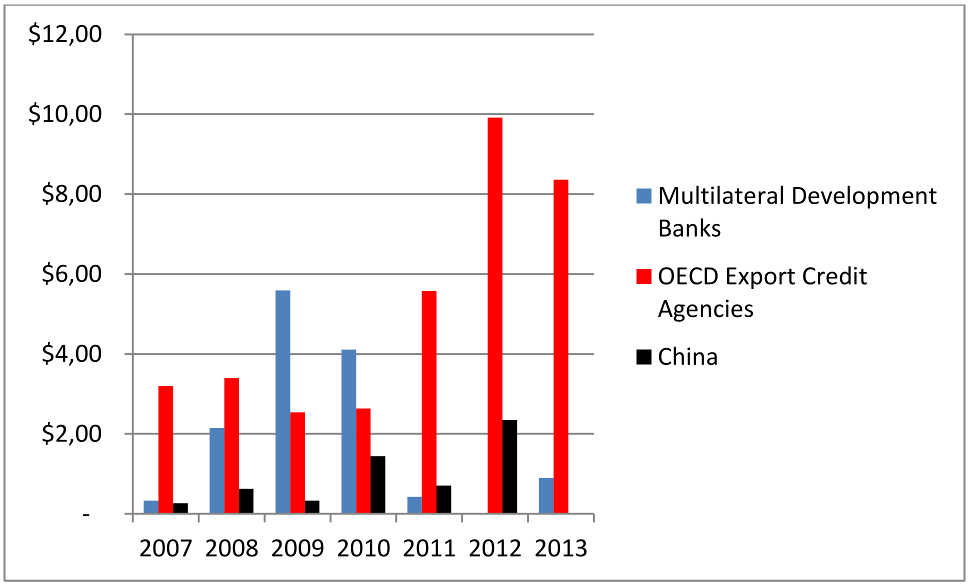
Source: Natural Resources Defense Council, forthcoming

(in billion $)	Total Coal Approved	% of total support		
Multilateral Development Banks (1)	**$13,51**	**24%**		
OECD Development finance institutions (2)	**$3,78**	**7%**		
OECD Export Credit Agencies	**$32,28**	**58%**		
Japan	$15,07		JBIC	$9,79
			NEXI	$5,28
United States of America	$7,24		US Ex-Im	$7,24
Germany	$2,91		Hermes	$2,91
South Korea	$4,66		Kexim	$3,32
			K-sure	$1,34
France	$1,64		Coface	$1,64
Italy	$0,34		SACE	$0,34
Canada	$0,32		EDC	$0,32
United Kingdom	$0,10		UKEF	$0,10
China (3)	**$6,08**	**11%**		
China Development Bank	$2,61			
China Ex-Im Bank	$1,89			
Bank of China	$1,23			
ICBC (4)	$0,35			
Total	**$55,65**	**100%**		

Source: Natural Resources Defense Council, forthcoming
(1) World Bank, African Development Bank, Asian Development Bank, European Investment Bank, European Bank for Reconstruction and Development, Inter-American Development Bank
(2) KfW (Germany), JICA (Japan), FMO (Netherlands)
(3) Note that data collected by the Natural Resources Defense Council is likely understated for China as access to data is very limited
(4) Industrial and Commercial Bank of China

In addition, as the graph below indicates, **ECA support for coal projects is also on an upward trend in absolute terms**:

Annual support for coal amongst public financial institutions 2007-2013 (billion US $)



Source: Natural Resources Defense Council, forthcoming
Chinese data is preliminary and likely understated as access to information is very difficult

This trend is extremely worrying: it is going the opposite direction of what climate science requires.

Time for change: end high carbon support from OECD Export Credit Agencies

1. ECA standards are lagging behind

Apart from the US ECA (US Ex-Im), no other ECA is so far committed to end its coal support.

Given the improvements in multilateral development bank practice, it is increasingly likely that OECD ECAs could end up as place of last resort for carbon intensive industries that are no longer able to secure funding due to their high risk and poor environmental performance. This creates a "race to the bottom," a form of extremely dangerous competition between governments on the basis of who has the weakest environmental policies.

This low standard should not be supported by the taxpayer.

In addition, ECAs have no development mandate: they therefore cannot claim that the coal projects they support do significantly contribute to poverty alleviation or energy access for all, because they do not assess these issues and make no such requirement to the coal project promoters. The fact that three Multilateral Development Banks ended their coal support proves both that the contribution of coal to sustainable development and energy poverty is now officially considered to be dubious, and that there are plenty of cleaner alternatives to focus on – notably with the boom in renewable energy and energy saving measures.

2. OECD countries must end ECA support for high carbon projects immediately

It is high time for change. OECD countries need to lead by example to get traction. They must show exemplarity and consistency with their climate claims - before the COP21 of the UNFCCC in Paris in 2015: they must commit that public finance will not support coal projects any more – and more broadly all carbon intensive projects.

Such a step forward by OECD countries is a must before any similar action can be effective with non-OECD countries like China.

Recommendations:

- **OECD countries should immediately and publicly commit to end all forms of ECA support for high carbon projects, including coal plants, mines and associated infrastructure;**
- **To ensure common consistent action of developed countries, they should also support a multilateral OECD agreement to effectively prevent any support for high carbon projects, including coal plants, mines and associated infrastructure from OECD Export Credit Agencies.**

Endorsed by: International and regional organisations

ECA WATCH
INTERNATIONAL NGO CAMPAIGN ON EXPORT CREDIT AGENCIES

GREENPEACE

OECD Watch

OXFAM

WWF

CEE bankwatch network

SEE CHANGE NET FOUNDATION

PACJA
PANAFRICAN CLIMATE JUSTICE ALLIANCE

Endorsed by: National organisations

Australia

JUBILEE AUSTRALIA

Belgium

11.11.11
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Ukraine

екоклуб

United Kingdom

friends of the earth see things differently

Friends of the Earth Scotland

Unites States

350.org

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EARTHWORKS

Friends of the Earth United States

NRDC The Earth's Best Defense

OILCHANGE INTERNATIONAL

PACIFIC ENVIRONMENT

RAINFOREST ACTION NETWORK

SIERRA CLUB FOUNDED 1892

Vietnam

CHANGE