

OPIC, Ex-Im, and Climate Change:

Business as Usual?

*An Analysis of U.S. Government Support for Fossil Fueled
Development Abroad, 1992-98*

By the Institute for Policy Studies, Friends of the Earth, and the International Trade
Information Service

April 28, 1999

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Acknowledgments:

The authors would like to acknowledge the following individuals and funders for their contributions to this report: Peter Bahouth and the Turner Foundation, Mark Rentschler and Ed Miller and the CS Mott Foundation, The Moriah Fund, Steve Sapourn, Wallace Global Fund, Charles Demere, Edward Goldsmith, Andrea Durbin, John Cavanagh, Miriam Pemberton, Sara Zdeb and Chris Moyles.

Friends of the Earth is a national non-profit advocacy organization dedicated to protecting the planet from environmental degradation; preserving biological, cultural, and ethnic diversity; and empowering citizens to have an influential voice in decisions affecting the quality of their environment—and their lives. For more information regarding this report, please contact: Friends of the Earth, 1025 Vermont Ave., N.W., Suite 300, Washington, D.C. 20005. Phone: 202-783-7400. Fax: 202-783-0444. Web site: <http://www.foe.org>

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Key Findings:

1. The two U.S. export credit/investment insurance agencies (ECAs), the Overseas Private Investment Corporation (OPIC) and Export-Import Bank of the United States (Ex-Im), are world class climate destabilizers: From 1992-98, these two agencies together underwrote \$23.2 billion in financing for oil, gas and coal projects around the world; these projects will, over their lifetimes, release 29.3 billion tons of carbon dioxide. This figure is slightly greater than all global emissions for 1996¹. This investment in fossil fuels far outpaces those of some multilateral development banks, such as the European Bank for Reconstruction and Development (\$1.2 billion and 6.5 billion tons of CO₂ from 1992-97²) and rivals that of the World Bank (\$13.6 billion and 37.5 billion tons of CO₂ from 1992-98)³.

1. Ex-Im and OPIC are heavily invested in fossil fuel power projects in numerous developing countries and economies in transition, working at cross-purposes with our stated foreign policy objectives. Ironically some of these countries, such as China, India and Indonesia, which are expected to be major emitters of greenhouse gases in the coming century, are among the “key developing countries” the U.S. State Department claims it is urging to participate “meaningfully” in the Kyoto Protocol as a precondition for bringing the Protocol to the U.S. Senate for ratification.⁴

3. OPIC and Ex-Im are investing in coal-fired power projects in countries where less carbon-intensive energy options, from natural gas to solar, are abundantly available. In Indonesia, the two agencies committed a combined \$1.47 billion in support of the 4,920MW Paton coal-fired power complex, despite Indonesia’s massive proven natural gas reserves. OPIC later matched its record-breaking assistance package for this Indonesia burner in support of a coal-fired power plant in Morocco, the biggest private power project in Africa near where a 50-megawatt wind farm was being developed. Ex-Im has been similarly devoted to fossil fuels in China, committing a combined \$1.66 billion toward the development of seven power plants (6 coal-fired and 1 gas-fired) in the country over six years.

4. Ex-Im and OPIC are violating U.S. environmental regulations. These institutions should be commended for taking the lead amongst export credit and investment insurance agencies worldwide by adopting minimum environmental standards. However, adoption of minimum safeguards is no substitute for abiding by the requirements of the U.S. National Environmental Policy Act given the significant impact Ex-Im and OPIC projects have on the earth’s climate. Nor do these institutions, or other international export credit and investment insurance agencies, have any credible plan to participate in international agreements aimed at solving climate change issues.

¹ [International Energy Outlook, 1998](#)

² See “The European bank for Reconstruction and Development: Fueling Climate Change,” November 1997, by the Institute for Policy Studies and the International Trade Information Service.

³ See “The World Bank and the G-7: Still Changing the Earth’s climate for Business,” November 1998, by the Institute for Policy Studies and the International Trade Information Service.

⁴ OPIC is not open for business in China.

Introduction

“Climate change is the most critical environmental threat facing the world today.”

--Stuart Eizenstat, Undersecretary of State for Economic, Business and Agricultural Affairs/OPIC board member, at Foreign Correspondents' Club of Japan, 1998.

Rising sea levels. Massive die-offs of coral reefs. An increase in vector-borne diseases. More frequent forest fires. Changing rainfall patterns and an increase in extreme weather. Crop devastation. A swelling tide of environmental refugees. At 1992's Earth Summit in Rio, governments, scientists, and environmentalists from around the world acknowledged these and other threats posed by climate change. The resulting United Nations Framework Convention on Climate Change (UNFCCC) and the convention's 1997 Kyoto Protocol aim to keep global climate change at bay by stabilizing levels of greenhouse gases—principally CO₂—in the atmosphere. An increase in these gases, which results from industrial activities involving the burning of fossil fuels, gives rise to climate change and to the consequences listed above.

However, while these first two small steps have been taken—global acknowledgment of the problem at Rio, and developed country agreement to binding limits on greenhouse gas emissions of 5 percent below 1990 levels by 2012 at Kyoto—the bigger steps still await us. After all, the 5 percent target reached in Kyoto is *one-twelfth* the amount recommended by the Intergovernmental Panel on Climate Change-- and 12 years too late.

The question now is: Will we continue to make the same mistakes we have made in the developed North, investing in “business as usual”--- fossil fuels and infrastructure dependent on fossil fuels-- in the less developed South? Or can we assist the South to develop its economies using clean alternatives to fossil fuels?

At the moment, with a few limited exceptions, the alternative approach is being neglected in pursuit of business as usual. The reasons are many: the price of oil has hit record lows; new reserves are being discovered; most of the world is just beginning to grow accustomed to the pleasures of the automobile; and global corporations are increasingly shifting energy-intensive industry to the South in pursuit of ever cheaper goods.

Meanwhile, in the U.S., Congress has adamantly resisted any possibility of a carbon tax which would begin to internalize some of the costs of fossil fuels. Gas-guzzling sports utility vehicles are growing in popularity. The U.S. Senate, under the Byrd-Hagel Resolution, has called on the Administration to take no action under the Kyoto Protocol until key developing countries also agree to limit their greenhouse gas emissions. The Senate has gone still further in trying to eliminate all references to the words “climate change” in any legislation it considers, refusing to even admit that the problem exists.

Meanwhile, the U.S. Government is using public funds to finance greenhouse gas-emitting projects in countries around the world. And it is doing so via publicly backed export credit and insurance agencies (ECAs). U.S. ECAs, the Overseas Private Investment Corporation (OPIC) and the U.S. Export-Import Bank (Ex-Im), are, in effect, the financial articulation of U.S. foreign policy. The U.S. government—and, by extension the U.S. taxpayer-- is the only shareholder in Ex-Im and OPIC, making these institutions beholden to us, U.S. citizens, for their investments abroad.

At the very least, if U.S. citizens are to endorse U.S. inaction under the Kyoto Protocol pending “meaningful” action by key developing countries, as Byrd-Hagel urges, it behooves us to ensure that our investments via such government agencies as OPIC and Ex-Im do not deter developing countries from taking action to limit their future greenhouse gas emissions. Put another way, if we really want China and India to stop burning coal before their coal supplies run out in the year 2250, shouldn't we be providing development assistance and export support to U.S. industries that make solar or wind power cheaper and more attractive for developing countries to consider than yet another coal burner?

Background on Export Credit & Investment Insurance Agencies

Export Credit & Investment Insurance Agencies (ECAs) provide loans, guarantees and political risk insurance to corporations headquartered in their country of origin seeking to do business abroad. Most ECAs are an official or quasi-official branch of their government, and every industrialized nation has at least one.

As private capital investment and liberalized international trade surpass traditional official aid both in quantitative amounts and in impact, the environmental effects of the trade and investment facilitated by ECAs are being questioned by a growing international coalition of non-governmental organizations (NGOs).

In 1996, ECAs provided support for exports totaling \$432.2 billion, or about 10.4 percent of total world exports.⁵ Most ECAs are members of the Berne Union—an international club of credit and investment insurers. The 1998 Berne Union Yearbook boasts that ECAs account for more than 20% of the total indebtedness of developing countries and countries in transition and 37% of the debts to official creditors, thus exceeding, in the aggregate, the debt of multilateral creditors, including the World Bank and the International Monetary Fund.⁶

While multilateral development agencies such as the World Bank have adopted lengthy environmental procedures, most ECAs have little, if any, environmental standards and safeguards. As a result, ECAs have backed environmentally disastrous projects that many multilateral development banks have been convinced to walk away from.

US ECAs

The Export-Import Bank of the United States (Ex-Im) and the Overseas Private Investment Corporation (OPIC) are the United States' two major export credit and investment insurance agencies. Both Ex-Im and OPIC market their services as financial institutions of last resort, claiming that most projects that they support would not occur but for their involvement, thus underscoring the leverage these ECAs have in instigating projects.

OPIC's lending is divided into three categories: insurance, project finance (direct lending or loan guarantees) and investment funds. Ex-Im's lending comes in the form of loans, guarantees and export credit insurance.

Created in 1934 during the Great Depression as a way to stimulate jobs through exports, Ex-Im has grown steadily for 64 years and supports billions of dollars in exports. Ex-Im has traditionally offered export credit guarantees, but has gone on to support direct and

⁵ Rich, Bruce, Environmental Defense Fund Memorandum, "Export Credit Agencies: The Need for More Rigorous, Common Policies, Procedures and Guidelines to Further Sustainable Development." November 1998.

⁶ The Berne Union Yearbook 1998, p. 5.

intermediary loans and provide export credit insurance. Ex-Im's goal is to "fill the gap" where the private market won't invest, via investment of public resources to help US businesses penetrate new markets, "forge trading relationships, gain the competitive edge and create new jobs."⁷

After pressure from environmental groups Congress revised the charter of Ex-Im in 1992. The revision requires the Bank to establish environmental review procedures. It also authorizes Ex-Im's Board to grant or withhold support for a project based on environmental grounds.⁸

OPIC was created in 1971 at a time when US corporations and many policy makers believed that programs to promote business investment in developing countries were preferable to traditional direct aid programs as a way to stimulate development. OPIC's stated mission is to mobilize and facilitate the participation of US private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from non-market to market economies. OPIC provides insurance to American companies covering the risk of expropriation, currency inconvertibility, and political violence.

Again after pressure from environmental, labor and other groups, OPIC was directed by Congress to ensure that the projects it supports are consistent with "*sound*" environmental and worker rights standards.

In conducting its programs, OPIC must take into account guidance from the Administration and Congress on a country's observance of, and respect for, human rights and labor rights. As a result, OPIC does not presently provide coverage to companies operating in Burma, China or Mexico.

OPIC is required to operate on a self-sustaining basis. OPIC has grown from its inception to boast nearly \$3 billion in reserves, helping to leverage some \$25 billion in investments.

ECAs and Global Climate Change

In mid-1997, at the Rio +5 Earth Summit, President Bill Clinton announced some bold new environmental initiatives to combat climate change, including positive steps for OPIC and Ex-Im. President Clinton acknowledged the impact financial institutions can have on the global climate by financing projects that emit greenhouse gases, and pledged that OPIC and Ex-Im would begin to calculate and make public the amount of greenhouse gas emissions resulting from power plants they finance.

Because these institutions are involved in a vast number of large-scale power plant projects, environmental groups roundly welcomed this policy commitment. However, OPIC and Ex-Im are also involved in numerous coal, oil and gas mining, drilling,

⁷ U.S. Export-Import Bank Annual Report,

⁸ Ex-Im projects must, of course, withstand the test of commercial viability, regardless of their environmental impact.

refining, and transportation projects around the globe as well, all of which contribute -- or will contribute -- large amounts of greenhouse gases to the atmosphere.

OPIC acknowledges that just one coal-fired power plant has a “significant impact on the global environment.” Taken in the aggregate, OPIC and Ex-Im’s power *and* energy financing has an effect that goes beyond “significant” to “dangerous.”⁹ But, because OPIC and Ex-Im only calculate power plant emissions months after a project is approved, the dangerous impact of their support is never fully considered during the project approval process. Clinton’s pledge for greater climate change accounting for OPIC and Ex-Im power projects is a step in the right direction, but must be strengthened to not only account fully for the agencies’ true overall impact on the global environment, but to do so before projects are approved.

Ironically, OPIC’s and Ex-Im’s support for carbon-intensive energy and infrastructure development continues to grow at a rapid pace. This increase is occurring at a time when both the Executive Branch and the Senate have called for the developing world’s “meaningful participation” in addressing the climate change problem.¹⁰ Ex-Im and OPIC support for fossil fuels is especially strong in countries like China, India and Indonesia. India and China are routinely singled out when US Senators explain why U.S. inaction on curbing U.S. greenhouse gas emissions is justified. Yet, as OPIC and Ex-Im regularly boast, these projects—in India, China, and other developing countries--would not occur without their support.¹¹

In addition to running counter to our foreign policy goals, this financing is ensuring a long-term development strategy that threatens the welfare of the poorest people in developing countries who are assumed to be at greatest risk as the climate grows more unstable.

Between 1992 and 1998, OPIC and Ex-Im together provided \$23.2 billion toward fossil fuel projects in developing countries and economies in transition. These projects will release 29.3 billion tons of carbon dioxide over their lifetimes. By way of comparison, all of the world’s countries emitted 28 billion tons of CO₂ in 1995¹².

This rate of financing for fossil fuels far outpaces that of the European Bank for Reconstruction and Development (EBRD), which provided \$1.2 billion in loans for fossil fuel projects between 1992 and 1997. These EBRD-financed projects will release 6.5 billion tons of CO₂ over their lifetimes.

These two US ECAs’ fossil fuel investments’ combined total of 29.3 billion tons of CO₂ is closer to that of their neighboring financial institution, the World Bank. Between 1992

⁹ “Power” financing refers to support for all power plants, including thermal power plants, nuclear power plants, large hydroelectric plants, etc. “Energy” financing refers to support for the exploitation of oil, gas and coal reserves, pipelines, refineries, etc.

¹⁰ The US Senate, in the Byrd-Hagel Resolution, has advised the President that it views the meaningful participation of developing countries in the Kyoto Protocol to limit greenhouse gas emissions as critical, given their future role in either averting or exacerbating the problem of climate change.

¹¹ OPIC is not currently assisting projects in China.

¹² International Energy Agency.

and 1998, the World Bank financed \$13.6 billion in fossil fuel projects, which will release 37.5 billion tons of CO₂ over their lifetimes.¹³ Put another way, OPIC and Ex-Im backed projects will release roughly 78 percent of the emissions of those backed by the World Bank during the same time period, 1992-98.

In some cases, there is an overlap of project support among OPIC, Ex-Im, World Bank and EBRD fossil fuel projects. Yet if the emissions that are credited to these projects co-financed by these multilateral development banks are deducted from the total, that is, if only the projects funded exclusively by Ex-Im and/or OPIC are counted, OPIC and Ex-Im's emissions are still significant, reduced by only 3.8 billion tons of CO₂ to 25.53 billion tons of CO₂.

The disproportionate share of investment in fossil fuels by these two US ECAs leads us to question why the Department of State was arguing for greater participation by India and China under the Kyoto Protocol at December 1997's Third Conference of the Parties to the UN Framework Convention on Climate Change, while, at home in the United States, American dollars are being used to finance greenhouse gas emitting projects in these same countries.

Money talks. And right now, OPIC and Ex-Im's message, which encourages US corporations and developing countries to build the infrastructure for continued reliance on fossil fuels, is talking louder than any other exhortation the U.S. Government is making for "meaningful participation" by developing countries under the Kyoto Protocol.

Process and Politics

Members of OPIC's Board include representatives from the Department of State, the US Agency for International Development (USAID), Department of Labor, and the Treasury Department, as well as from the business community. OPIC's Board of Directors regularly approves projects well before any environmental assessment and proper due diligence has taken place. For example, OPIC's Board of Directors approved the Sakhalin oil and gas project—a massive project which will release at least 428 million tons of CO₂ over its lifetime—nearly a year before any environmental assessment (EA) had been completed. The Board practice of approving projects prior to environmental review undercuts any leverage that OPIC's well-trained, but small, environmental staff has to improve or reject projects based on their impact on the global climate.

Ex-Im's Board of Directors do not vote on projects until after the completion of environmental assessment. However, Ex-Im refuses to categorically prohibit certain types of projects, like pipelines in World Heritage Sites, a safeguard that OPIC has adopted. Ex-Im indicates that that due to the timing of Board decisions, prohibitions for sensitive areas are not necessary.

¹³ Ibid., "The World Bank and the G-7: Still Changing the Earth's Climate for Business," 1998.

Power Plant Business Booming

"Ex-Im is the largest single source of international independent power plant financing."
Independent Energy, March 1997.

Our study reveals that Ex-Im alone extended \$8.3 billion in financing toward 62 fossil fuel power projects from 1992-98. This is just about even with the World Bank's power project portfolio over the period mid-1992 to mid-1998 (63 projects, \$8.1 billion). OPIC, too, came close to the World Bank's fossil fuel power plant spending (\$6.1 billion), though it funded fewer individual projects (37) during the same time period.

Combined, the two institutions allocated \$14.4 billion toward 88 power projects, all of which were powered by fossil fuels. These projects will add an estimated 4.7 billion tons of carbon dioxide to the earth's atmosphere.

Ex-Im and OPIC have backed several power plants which were the first to be developed and owned by foreign corporations in developing countries. These institutions have backed the proliferation of private fossil fuel power projects in three countries—India, Indonesia, and China—which are outpacing global average growth in greenhouse gas emissions. According to the Energy Information Administration, although energy consumption growth slowed in Asia in 1997, the region had the largest absolute increase in consumption between 1988 and 1997, which was more than double the increase for North America. North America had the second largest regional increase in consumption over the same period.¹⁴

In addition to backing carbon-intensive coal burners in these countries, their investments proved controversial in other ways as well. In India, both agencies backed the AES Ib Valley coal-fired power plant in 1994, which provided power largely to foreign-owned aluminum smelters; coal and bauxite mining for the burner and smelters displaced tribal people from lands they had occupied for centuries. They also backed the controversial Enron 2450MW gas-fired power plant in Dabhol in 1994, which was criticized by Human Rights Watch for human rights violations.

In Indonesia, the two agencies committed a combined \$1.47 billion from 1992-96 in support of the 4,920 MW Paiton coal-fired power complex, sponsored by General Electric and Southern California Edison. OPIC explained, "to help meet the task of building a mammoth (power plant)..., OPIC provided its largest-ever assistance package... When completed, it will be the first large-scale, privately owned and operated power plant in Indonesia."¹⁵

Though OPIC wrote about Paiton in glowing terms, the *Wall Street Journal* in December 1998 revealed questionable environmental decisions involved in the Paiton 1 deal. According to the *Journal*, the project was pushed through although Indonesian government planners advised the investors that the Paiton power deal was too much for

¹⁴ "International Energy Annual 1997," Energy Information Administration, <http://www.eia.doe.gov/emeu/iea/contents.html>.

¹⁵ See OPIC Press Releases

an already overburdened, inefficient power grid. Instead of coal, Indonesian government power consultants had urged more sustainable alternatives, such as gas-fired and geothermal power plants. Ignoring their recommendations, Suharto, and then Technology Minister B.J. Habibie, now Indonesia's president, "hand-picked developers to lead the charge into big, high-risk, coal-fired power stations," according to these same consultants.¹⁶

Ex-Im has been similarly active in China, where it committed a combined \$1.58 billion toward the development of six power plants (5 coal-fired and 1 gas-fired) with a combined capacity of 7300MW. (Curiously, Ex-Im is not prohibited from conducting business in China, although OPIC is, due to human rights concerns.)

Fossil fuel extraction and distribution

OPIC and Ex-Im are also fueling the proliferation of oil and gas field developments, refineries and pipelines in Latin America, Africa, and Asia. These projects often significantly and irreversibly impact the last remaining fragile frontier ecosystems on earth.¹⁷

Combined, they committed \$8.8 billion toward 26 oil fields, 1 oil pipeline, 11 oil refineries, 10 natural gas fields, five natural gas pipelines, 4 gas refineries, and 15 other oil and gas-related projects. These investments will generate over 24.6 billion tons of carbon dioxide emissions in their lifetime.

In Russia, OPIC and Ex-Im are trying to jumpstart the country's languishing oil industry, and to catalyze U.S. investment in newly opened oil and gas fields. Industry reports have described OPIC as the most active Western institution in Russia's oil industry. Combined, OPIC and Ex-Im have invested \$2 billion in Russian oil and gas fields, pipelines and refineries. These projects, we estimate, will result in 7.37 billion tons of carbon dioxide emissions.

OPIC and Ex-Im are also helping to fuel the increasing share of global oil and gas production flowing from Latin America. OPIC supported development of Peru's energy sector through its backing of the Aguatía project, comprising construction of a 215-kilometer gas pipeline. In Venezuela, Ex-Im has invested in the world's largest oil refinery—the Paraguana Refinery Complex, to the tune of \$399 million. The institutions are also very active in Colombia, Bolivia, and Argentina.

¹⁶ "A Race to the Bottom: Creating Risk, Generating Debt and Guaranteeing Environmental Destruction," March 1999, Friends of the Earth et al; Case Study: Export Credit Agency Finance in Indonesia, by Titi Soentoro, Bioforum, and Stephanie Fried, Environmental Defense Fund, pp. 29-30.

¹⁷ Please see recommendations section regarding categorical prohibitions.

In addition to the Venezuelan refinery, and three refineries in Russia, OPIC and Ex-Im are backing oil refineries in Indonesia, Saudi Arabia, Kuwait, Thailand, India, the Philippines, and Uzbekistan.

Conclusion

In the next 20 years, absent significant changes in current investment patterns, developing countries are projected to exceed developed countries in their aggregate greenhouse gas emissions. In a “business as usual scenario,” China alone is expected to be emitting 7 billion tons of CO₂ by 2020, a figure roughly one-fourth of today’s global total emissions.

If developing countries are to be brought on board, we must tackle climate change on two fronts:

- 1) By reducing the significant share of greenhouse gas emissions the U.S. contributes to the earth’s atmosphere; and
- 2) By ensuring that the United States provides all of the support necessary for developing countries and economies in transition to ensure that the “business as usual” approach is the road *not* taken.

Not to do so is to ensure rapid, perhaps irreversible, climate change—a consequence that is in no one’s interest.

Recommendations

In a February 1999 letter to environmental organizations, OPIC president George Munoz committed to reviewing all agency policies that relate to climate change. The recommendations below are designed to provide a framework for action for both OPIC and Ex-Im on a process for clear and comprehensive policies to address the second of these two important fronts—Northern investments in developing countries and economies in transition—for action on climate change.

Our recommendations can be divided into four basic categories.

1. **Common standards, greater transparency:** Adopt and promote common minimum environmental and social standards and public participation and transparency measures for all export credit agencies within the within the 29-member Organization for Economic Cooperation and Development (OECD).
2. **Invest in the Environment:** More clearly define and create positive portfolio targets and programs for environmentally beneficial projects, with a specific set of benchmarks for renewable energy.¹⁸

¹⁸ For the purposes of this report, “renewable energy” is defined as small or mini-hydro (less than 20 megawatts), solar applications, wind power and geothermal. Nuclear power and large hydroelectric power does not fit the criteria of acceptable “renewable energy.”

3. **Do not invest in environmental destruction:** Broaden and adopt more stringent screening mechanisms directly applicable to the power and oil & gas sectors.
4. **Obey U.S. law:** Ex-Im and OPIC should take the steps necessary to comply with applicable U.S. environmental regulations and foreign policy objectives.

Proposal 1: Common Standards, Greater Transparency

- **Common Standards for Export Credit & Investment Insurance Agencies (ECAs)**

While OPIC and Ex-Im are not setting a positive example with their disproportionate investment in fossil fuels around the world, they are at least taking the first step toward greater transparency and greater environmental sensitivity. They should be commended for taking this first step of basic standards, and for holding firm on it, over loud opposition from the US Chamber of Commerce and certain members of Congress.

This first step of basic standards is one no other ECA within the OECD, except Canada's Export Development Corporation, has taken. Yet all OECD members are signatories to the Kyoto Protocol. As such, among other commitments, they have pledged to promote the transfer of technology from Annex I, or industrialized, countries to non-Annex I, or developing, countries in developing their economies using less carbon-intensive energy resources. ECAs are one among many important vehicles for this transfer of technology.

The U.S. should continue to call on all ECAs within the OECD to agree to the adoption of minimum common environmental and social standards within the next year. At a minimum, these standards should require adherence to internationally recognized standards such as those of the World Bank Group. Currently, Ex-Im standards are weaker than those of the World Bank Group.

- **Greater Transparency for ECAs**

The public should have a basic right to know how ECAs, within individual projects or across a sector, are affecting the global climate. Endorsing this "right to know" as it pertains to climate change, the following statement was issued by the G-8 Environment Ministers and endorsed by the G-8 leaders in their final Communiqué after the May 17, 1998, G-8 Summit in Birmingham:

"We must ensure that the policies and operations of the World Bank and other IFIs [international financial institutions] take full account of climate change."

In keeping with this statement, OPIC, Ex-Im and other ECAs must ensure that their complete "climate footprint" is accounted for on an annual basis. They should conduct full assessments of all their lending for its impact on the global climate—including, but not

limited to, accurate counting of all greenhouse gas emissions associated with oil, gas and coalfields, transportation and power projects they support.

Estimating these emissions is strictly a data gathering and mathematical problem. By apportioning emissions from fuel production systems to end-use consumers, the data could provide a better understanding of the full impact of these activities funded by Ex-Im and OPIC. Assigning responsibility at the national or institutional level gets a bit more complicated, but needs to be done for two reasons: 1) public disclosure (i.e., revealing the full, cumulative environmental impact on the global commons) is called for by G-8 language; and 2) this exercise would assist developing countries and countries undergoing economic transition in developing transparent, reliable inventories of greenhouse gases, bringing the world one step closer to the U.S.' stated foreign policy goal of "meaningful participation" by developing countries under the Kyoto Protocol.

Such calculations, made publicly available in raw form, would not compromise confidentiality requirements of OPIC and Ex-Im clients. Instead, this data would provide greater transparency around the difficult task of determining, for example, what would happen in the absence of a given project, what is happening elsewhere as a result of a project, how the availability of a new resource would affect fuel mixes and energy consumption behavior—all critical informational tools both for the public sector in evaluating the desirability of a project, and for the private sector in evaluating opportunities for Joint Implementation (JI) projects, and in the proper functioning of the Clean Development Mechanism (CDM).

While Ex-Im and OPIC have committed to tracking and reporting annual greenhouse gas emissions from all thermal power plants, all other greenhouse gas-emitting projects are only assessed "to the extent an appropriate methodology is available". Initial reports suggest that this escape clause has allowed OPIC and Ex-Im to avoid calculating GHG emissions from all projects except power projects.

Additionally, OPIC and Ex-Im's current and proposed disclosure policies for environmentally sensitive projects are grossly inadequate for a publicly backed organization. Current web listings are insufficient to provide initial information to the public on potential environmental impacts of proposed projects. For instance, a posting of "Philippines, residual fuel-fired power plant" tells the public nothing about the actual project beyond the bare outlines. OPIC and Ex-Im should, at a minimum, provide initial information on power plant size (MW), specific fuel mix (including grade of coal, etc.), and specific application (for example, combined-cycle natural gas, fluidized bed coal, etc.), major proposed consumer market (industrial, residential, etc.), environmental mitigation technologies utilized (scrubber, etc.), as well as more detailed information on location by region or locality.

- **Aarhus Convention**

In the international context, many ECA countries have also signed international agreements that require transparency in the environmental decision-making process. For instance, 21 of the 29 OECD members have signed "Convention on Access to

Information, Public Participation in Decision-making and Access to Justice in Environmental Matters (Aarhus Convention).” The Aarhus Convention is an international treaty negotiated by the member countries of the United Nations Economic Commission for Europe (UNECE). It was opened for signature in June 1998, but has yet to enter into force. Once ratified, Aarhus will require three pillars upon all signing countries’ government institutions including ECAs: 1) access to environmental information (including, potentially, greenhouse gas emissions associated with ECA-supported projects); 2) access to decision-making; and 3) access to justice (independent enforcement mechanisms).¹⁹ As “public authorities,” several prominent European ECAs will be subject to the Aarhus Convention upon ratification.

In addition to providing information to citizens in the ECA’s country of origin, information should also be made available by the clients in a culturally appropriate way for project affected people in advance of project approval. The International Finance Corporation, the private arm of the World Bank, recently improved its public disclosure requirements to clarify the importance of making information available in the country where the project is located.

Proposal 2: Setting Positive Environmental Goals

- **Invest 20% in Renewables**

The Clinton/Gore Administration should require Ex-Im and OPIC to shift at least 20% of its power and energy activities toward renewables²⁰ and energy efficiency programs within the next 5 years. This initiative will set a positive example for other Annex I signatories to the Kyoto Protocol towards “meaningful participation” of developing countries in solving the climate change problem.

Most investment advisors note that portfolio diversity reduces commercial and political risk. In the past year, murders of Americans, threats of mass suicide by the indigenous U’wa peoples, sabotage and political uprisings significantly hindered the construction of oil and

gas pipelines in Yemen, Nigeria and Colombia.²¹ Recently an OPIC coal-fired power plant in Thailand was the subject of a public protest in Thailand in which 60 protestors were injured. Public agencies should be tools for financing sustainable development.

Ex-Im's proposed funding of the Chad-Cameroon oil pipeline faces significant local opposition and opposition from human rights and environmental groups around the world. Meanwhile, people in developing countries are paying increasingly higher health care costs

¹⁹ For More Information on the Aarhus Convention, please see report, “The Public Participation Convention,” (March 1999) by Claudia Saladin, Center for International Environmental Law. The Convention is currently open for UNECE countries to sign. Once the Convention enters into force, it allows for the parties to decide whether to open it up for signature by other UN countries.

²⁰ Wind, solar, biomass, geothermal, mini-hydro. This paper does not endorse large dams or nuclear projects.

²¹ See “No Hiding Place” by Control Risks Group. Typically, clashes between transnational oil & gas companies and the local community occur when: “1) Companies offer “bribes” instead of real development programmes-the benefits go elsewhere, 2) There is a dispute about land rights, 3) Local business interests clash with the company, 4) People from other parts of the country or abroad take the most attractive jobs and 5) Dissident or guerilla groups threaten to attack the operation in the hope of extorting funds and/or putting pressure on the national government.”

as a direct consequence of dirty, unhealthy fossil-fueled power plants built with minimal public input—investments that ignore their energy needs²².

Ex-Im and OPIC could be playing a positive role in minimizing these and other sorts of risks by diversifying their portfolios and shifting their investments away from fossil fuels while simultaneously serving notice to other industrialized nations that US ECAs intend to play a leadership role in addressing the problem of climate change.

- **A Proactive Strategy: Overcoming Market Barriers**

Rather than waiting for small, environmentally sustainable businesses to walk in the door, ECAs should actively cultivate partnerships with these enterprises, including the renewable energy business. A good first step would be for ECAs to begin the process of identifying what opportunities exist and what effective role they can play in facilitating environmentally sustainable investment.

Both institutions have made various reforms in the past few years to streamline operations for small and medium-sized business. But, clearly, this is not enough. The incentive structure does not encourage staff to invest time in labor-intensive small projects with less pay-off for the institution than, say, an offshore oil drilling project. Yet this sort of internal change in staffing and incentive structures—from chasing after the “big deal” to cultivating the small players—must be anticipated and encouraged, with specialists in small business added at the board and staff levels to both institutions.

OPIC and Ex-Im should also assess and attempt to overcome market penetration barriers to renewables. Neither OPIC nor Ex-Im provides traditional subsidies to alternative energy projects, nor do these industries necessarily desire subsidization. Nevertheless, alternative energy technologies do face many financial, institutional and market structure barriers in the developing world.

Among the barriers:

- 1) High transaction costs, including the high cost of credit, as many alternative energy companies and projects are “too small” for conventional financial institutions such as OPIC and Ex-Im to extend credit.
- 2) High up front costs: Renewable technologies are capital-intensive, resulting in higher initial and financing costs. However, what are not accurately accounted for in project finance are the benefits that tend to accrue beyond the payback period—particularly to the environment and to public health-- of many renewable projects.

²² When determining “energy needs,” it is important to distinguish between energy “needs” of export-oriented industries and energy for such basic survival needs such as cooking, heating, and agricultural production. The displacement of one energy “need” by another with greater provision of financing means that aggregate greenhouse gas emissions may grow higher and faster than they otherwise would. For example, when women can no longer afford to buy gas for cooking fuel, they may turn instead to coal or biomass; when small entrepreneurs cannot gain access to reliable electricity, they may instead invest in diesel-powered generators. Informal sector greenhouse gas emissions are growing rapidly in developing countries, in part due to IFI fixation on providing energy for heavy industry and urban dwellers to the exclusion of energy for rural dwellers and the informal sector.

- 3) Inexperience: There is a serious shortage of technological and industrial experience in areas ranging from regional infrastructure, to installation, operation, repair and maintenance for renewables.
- 4) Subsidies for fossil fuels, high import taxes on PV and wind systems and electricity tariff distortions also inhibit the broad dissemination of renewables.

Clearly the U.S. Government needs a comprehensive plan. Here is how we think Ex-Im and OPIC can obtain the necessary 20% shift:

- **Alternative Energy Forums and Missions**

OPIC and Ex-Im should conduct Alternative Energy Opportunity Forums and Missions. Such forums and missions would create a significantly better environment for small and medium-sized businesses to look for increased opportunities overseas. For instance, OPIC has often funded and participated in "Trade Missions" in the past. Section 22 U.S.C. 2194(d) of the Foreign Assistance Act authorizes OPIC to "initiate and support through financial participation, incentive grant, or otherwise, and on such terms and conditions as the Corporation may determine, the identification, assessment, surveying, and promotion of private investment opportunities, utilizing wherever feasible and effective the facilities of private organizations or private investors." Ironically, the Foreign Assistance Act categorically prohibits OPIC from participating in such activities if directed at oil, gas and non-fuel minerals.

Within the Foreign Assistance Act many opportunities exist. First, via incentive grants, basic identification and assessment activities are allowed. For instance, OPIC can provide corporations with targeted international product and market development initiatives--such as resource assessment, applied research, demonstration, training and education—to facilitate partnerships with foreign companies and governments interested in working with U.S. business interests. This statute could allow use of funds for issues ranging from assistance in finding an optimal site for construction of a renewable power project to ensuring optimal performance of renewables by providing data on "regional climatic and environmental conditions." OPIC could also be helpful under this statute by identifying market barriers and failures in a particular developing country.²³

The Foreign Assistance Act also enables OPIC to authorize grants that more directly facilitate the market entry of renewable energy projects or equipment, thereby enabling OPIC to lower the market barriers to commercialization of renewable energy technologies. Using this statute in a creative manner, OPIC has the potential to become an international leader in exporting alternative energy and efficiency to developing countries. Some corporations that own renewable companies and already do business with OPIC and Ex-Im for fossil fuel ventures could benefit from these initiatives, too.

²³See, "The Massachusetts Renewable Fund: New Clean Energy Financing."

- **Look to other International Financial Institutions for Guidance, Models and Partnership Concepts.**

While OPIC and Ex-Im have yet to invest regularly in climate-friendly power sector projects on a consistent basis, other public international financial institutions are beginning to shift their portfolios in this direction. As previous reports by our organizations indicate, the World Bank Group and the European Bank for Reconstruction and Development (EBRD) are significant bad actors in fueling climate change and have not implemented necessary steps to change these lending patterns. However, initial steps taken by the Bank and EBRD do provide models for Ex-Im and OPIC to consider emulating.

International Finance Corporation (IFC)

Both Ex-Im and OPIC conduct project finance in a manner broadly consistent with transactions of the private sector finance arm of the World Bank Group, the International Finance Corporation (IFC). The Environmental Projects Unit within the IFC was established in 1996 to a) carry out IFC's activities related to the Global Environment Facility (GEF) and the Multilateral Fund of the Montreal Protocol (MFMP), and b) to "act as a catalyst in identifying, developing and structuring environmental projects for IFC's own account." The key to implementation of these projects, is partnership with grant-making institutions--GEF and MFMP. These partnerships lower market barriers and enable the IFC to make alternative and renewable investments without compromising their principles of operating within a subsidy-free business climate.

In collaboration with GEF and/or MFMP, IFC has launched several initiatives. First, in 1997, IFC created the Renewable Energy and Efficiency Fund, a "fund of up to \$210 million to finance grid-connected and off-grid energy and energy efficiency projects." IFC also launched the Hungary Energy Efficiency cofinancing program, which will provide credit guarantees to financial intermediaries to support energy efficiency financing.

In conjunction with the World Bank, GEF, and U.S.-based charitable foundations, the IFC is also moving forward with the Solar Development Corporation (SDC). SDC, again relying on unique financing partnerships, is designed to "accelerate significantly the development of the rural, off-grid PV market in developing countries by reducing market development barriers." SDC has a target capitalization of US\$50 million, with \$32 million devoted to an Investment Fund and \$18 million directed to business advisory services. The probable resulting GHG emission reductions are estimated to be between 1.1 and 1.3 million tons of carbon, according to the World Bank.²⁴

The IFC also is responsible for the Small and Medium Scale Enterprise Program (SME), a pilot initiative of IFC and GEF, created to stimulate greater involvement of small and medium scale enterprises in preserving biodiversity and reducing greenhouse gases. GEF granted \$4.3 million to SME and IFC is the authorized executor of the program. Examples of projects financed include renewable energy power generation (small hydro, solar, wind),

²⁴ See IFC web site for more information.

energy efficiency conversions and harvesting of non-timber products from rainforests. IFC selects institutions to act as intermediaries providing long term loans at low interest rates.²⁵ The intermediaries use the loans to finance projects of small and medium scale that meet environmental and financial criteria. Intermediaries provide financing either as debt or equity.

Both OPIC and Ex-Im have the ability to follow this model by setting up similar pilot project finance or funds in partnership with grantmaking agencies or entities such as USAID, the EPA, NOAA, U.S.-based charitable foundations, and even the U.S. Chamber of Commerce. Such transactions could meet the spirit and letter of OECD prohibitions on concessionary lending and allow these bilaterals to maintain their self-sustaining operational status. It is evident that without partnership and market assistance it is less likely that most investors would place capital at risk in funds that would provide marginal investment returns. Partnerships with other agencies and funds help reduce this perception of risk. Once enough pilot programs have proven successful, OPIC and Ex-Im could make further investments without such partnerships.

European Bank for Reconstruction and Development (EBRD)

The European Bank for Reconstruction and Development (EBRD) notes that a very high energy-intensity and low energy-efficiency characterize the countries it supports. Badly designed and inefficient systems, lack of maintenance, reliance on burning low-cost fossil fuels, and a strong emphasis on energy-intensive industry are characteristics of the economies in transition (EITs) in which the EBRD operates.

In response, EBRD set up an Energy and Efficiency Team (EE) to develop and implement energy efficiency investment projects. Since the team's establishment in 1995, EBRD has committed approximately ECU 150 million to energy efficiency projects, generating total investments of approximately ECU 450 million. EE estimates energy savings achieved in these investments amount to approximately 900,000 tons of oil equivalent per year, avoiding 2.8 million tons of carbon dioxide emissions per year.

One example of EE's work is EBRD's recent investment in Energy Service Company International S.A. (ESCO). EBRD made an equity investment in ESCO International's project in Poland. ESCO will implement energy efficiency projects based on the concept of an "energy service company." The investment involves the construction of small combined heat and power units. EBRD expects the projects will result in considerable environmental improvements through the reduction of emissions. EBRD's ESCO investments are a pioneering area in which opportunity may exist for U.S. bilaterals and U.S. industries to get ahead of the curve without any "market-assist" partnerships.

The EE team also has initiated projects that incorporate joint implementation components contemplated by the UNFCCC. For instance, EBRD made a \$45 million loan aimed at

²⁵Intermediaries already selected by IFC include World Wildlife Fund, El Sewedy Company (Egypt), FUNDECOR (Costa Rica), Environmental Enterprises Assistance Fund (USA), and Caresbac-Polska (Poland).

improving various energy efficiency issues in Romanian industries. The Swiss Government provided a complementary grant to further reduce greenhouse gas emissions from these projects, resulting in an additional 23 percent reduction in carbon dioxide emissions.

Both OPIC and Ex-Im operate in many of the same countries as the EBRD, where energy inefficiency is the rule, rather than the exception; they could, like the EBRD, begin developing their own ESCOs in partnership with grantors and the private sector.

Environmental Project or Energy Efficiency Units

Finally, both the IFC and EBRD demonstrate that these deals will not happen without setting up Environmental Project or Energy Efficiency Units within their financial institutions. OPIC and Ex-Im should set up Environmental Project Units from a cross-section of their investment development, finance and environmental review departments. Here, too, setting up employee incentive programs for final commitments to renewable or energy efficient projects within OPIC and Ex-Im could help stimulate the number of renewable or energy efficiency projects financed.

Build on Ex-Im's "Environmental Exports Program" and Find Incentives for Investing in Renewable Energy

The "Environmental Exports Program" (EEP) is designed to increase Ex-Im's level of support for environmentally beneficial goods and services via:

- 1) Short term insurance coverage for small business exporters including 95% commercial coverage and 100% political coverage or
- 2) medium and long term support via
 - a) local cost coverage equal to 15% of U.S. contract price,
 - b) capitalization of interest during construction, and
 - c) maximum allowable repayment terms permissible under OECD guidelines.

To date, most use of the EEP creates enhanced efficiency for fossil fuel-fired power plants, not renewables, although recent language in Ex-Im's environmental guidelines are a step in the right direction:

"To encourage a reduction in the level of greenhouse gases associated with producing electric power, Ex-Im Bank will provide enhanced financial support through its EEP for electric power generating projects using renewable energy as the prime electricity producer. In addition, Ex-Im will provide financial support through its EEP for any thermal project which produces fewer than 400 grams of CO₂ per kWh of electricity produced by the plant."²⁶

By itself, the EEP does not create sufficient market assistance to significantly drive down market barriers for renewable energy systems. Ex-Im should follow multilateral, creative

²⁶ Export-Import Bank of the United States, Environment Procedures and Guidelines, April 2, 1998, table 6, page 18.

financing models that work in combination with the EEP to facilitate more alternative energy deals.

In addition, Ex-Im Bank needs to strengthen its standards for calculating environmental benefits, and ensure that a quantifiable amount of Ex-Im finance is provided for environmentally beneficial transactions. Currently, Ex-Im standards for “environmentally beneficial projects” is seemingly random.

For example, these are among the projects Ex-Im considers “100% environmentally beneficial”:

- a waste incinerator in Turkey (despite the fact that incinerators are the single greatest source of cancer-causing dioxins and other heavy metals);
- a cement manufacturing plant in Argentina (with no reference to the energy source cement is a very energy-intensive industry);
- a flue gas desulfurization project in Turkey (for a coal-fired power plant); a steel mill in Mexico (another energy-intensive industry);
- and a sulfuric acid plant in Peru.

Clearly, there is a need for common standards—created in consultation with the environmental, governmental and scientific community-- and greater transparency in Ex-Im’s assessment of what constitutes an “environmentally beneficial” project.

Proposal 3: Do Not Invest in Environmental Destruction

- **No Fossil Fuel Extraction in Frontier or Pristine Areas for Ex-Im Bank**

To its credit, OPIC has adopted categorical prohibitions for extractive or infrastructure projects in pristine or fragile frontier areas such as primary tropical forests²⁷, UN National Parks, World Heritage Sites and IUCN protected areas I-IV. Extractive and infrastructure projects related to oil and gas development not only increase fossil fuel dependence and greenhouse gas emissions in developing countries but also result in forest fragmentation and deforestation, thus reducing the benefits of these carbon sinks. Ex-Im should immediately adopt the categorical prohibitions that OPIC applies including refusal to support extractive or infrastructure projects in primary tropical forests. Ex-Im and OPIC should then work to internationally harmonize these prohibitions among all ECAs.

- **No more Coal**

Researchers at the Friends of the Earth and the Institute for Policy Studies maintain that OPIC and Ex-Im should no longer fund coal-fired power plants, given their carbon intensity, serious human health consequences, and other environmental problems associated with burning coal, and given the abundant availability of private financial support for these projects. There is no disputing the fact that large coal-fired power plants play a large role in

²⁷ OPIC has been accused of violating this prohibition due to its consideration of support for the Bolivia-Cuiaba pipeline project.

affecting the earth's climate. Further support of these plants sends the wrong signal to policymakers in developing countries.

- **Don't Invest in Inefficiency, Carbon Intensity**

Ex-Im and OPIC should develop transparent guidelines which ensure that low carbon intensity and energy efficiency are objectives pursued in all fossil fuel power projects they support. Currently, both institutions apply some World Bank standards, but neglect to apply World Bank energy efficiency standards to their projects.

As ECAs move toward international harmonization of environmental standards, establishing minimum power project efficiency standards will be a necessary ingredient in combating climate change.

Carbon intensity and the energy fuel mix should also be more carefully scrutinized by the ECAs before project approval; for example, both OPIC and Ex-Im supported the Paiton, Indonesia, coal-fired power plant, despite the fact that gas is abundantly available in Indonesia. By establishing standards now, OPIC and Ex-Im will create a competitive advantage for U.S. environmental technology exporters.

- **Carbon Shadow Pricing**

Ex-Im and OPIC financial decisionmaking on lending for projects may change if they knew the true cost of their projects due to carbon emissions. Recognizing this traditionally externalized price on carbon emissions "increases project cost and, thereby reduces its economic internal rate of return and its net present value."²⁸

Following recent exercises conducted by the World Bank Group and the U.S. Agency for International Development, OPIC and Ex-Im should apply a \$20-\$40 tax per metric ton of carbon when conducting an economic analysis of future energy and power loans. The pricing system will move these ECAs towards internalizing environmental issues into project costs, types, and selection as the damages associated with global climate change can be integrated into energy lending. This procedure will go a significant way towards putting renewable projects on a level playing field with fossil fuels when OPIC and Ex-Im decide if a given project will allow them to operate on a truly self-sustaining basis.

Proposal 4: Obey U.S. Law

- **National Environmental Policy Act**

The courts have held that NEPA applies to federally supported projects outside of the United States that lead to significant and adverse environmental impacts in the United

²⁸ The World Bank, "The Effect of a Shadow Price on Carbon Emissions in the Energy Portfolio of the World Bank: A Backcasting Exercise." (July 1998). The study proved that 60% of the Bank's studied portfolio would be "sensitive to the price and discount rate assumptions."

States (See *Sierra Club V. Adams*). In signing the 1992 UN Framework Convention on Climate Change, the US acknowledged that increasing emissions of atmospheric greenhouse gases would adversely impact the global environment, which by definition includes the United States. Application of NEPA to OPIC and Ex-Im backed fossil fuel projects is therefore also required since, individually and collectively, these projects contribute to significant adverse impacts on the global climate, which in turn have significant and adverse impacts on US territory.

Under NEPA (and also Executive Order 12114), OPIC and Ex-Im are required to prepare and take fully into account an environmental impact statement for any project significantly affecting the environment of the global commons outside the jurisdiction of any nation. While OPIC and Ex-Im may believe that individual fossil fuel projects are not likely to “meet the test of 'significant impact' on the global commons to warrant an EIS,” and therefore do not require an environmental impact statement addressing global impacts, the cumulative effects of OPIC and Ex-Im's lending portfolios on the global environment are substantial.

OPIC acknowledges as much, stating that the "cumulative impacts of several large projects could conceivably have an impact on extraterritorial waters or the atmosphere sufficient to trigger the requirement."²⁹

NEPA requires that Environmental Impact Statements be conducted when the cumulative impacts of Federal and other actions have significant and adverse environmental impacts. "Cumulative impact" is defined as:

*"[T]he impact on the environment which results from the incremental impact of the action when added to other past, present, and reasonably foreseeable future actions regardless of what agency (Federal or non-Federal) or person undertakes such other actions. Cumulative impacts can result from individually minor but collectively significant actions taking place over a period of time."*³⁰

OPIC and Ex-Im's financial assistance for power projects and fossil fuel exploration entails a long-term future commitment of greenhouse gas emissions, as well as a significant dedication of investment capital that cannot be redirected to other more environmentally benign development projects in the future. It is our view that Ex-Im and OPIC's past and present fossil fuel assistance portfolio is large enough to trigger the requirements of NEPA, and that the original intent of NEPA mandates that OPIC and Ex-

²⁹ May 1998 letter to Pacific Environment and Resources Center from OPIC.

³⁰ Council on Environmental Quality Regulations for Implementing the Procedural Provisions of the National Environmental Policy Act; 40 CFR Parts 1500-1508.

Im consider the cumulative global environmental impact of its fossil fuel/power generation portfolio over the entire operational lifetime of these projects.

- **Conduct a Sectoral Environmental Impact Statement**

Even if OPIC and Ex-Im refuse to comply with NEPA, they are required to conduct Sector Environmental Impact Statements of their power and fossil fuel exploration portfolios.

For instance, OPIC has interpreted Executive Order 12,114 to require an “Environmental Impact Statement” for any project or series of projects that is “likely to have a significant effect on the environment of the global commons.” The statement shall include a section on the consideration of the purpose of and need for the proposed project; a section that provides a succinct description of the environment of the global commons affected by the proposed action; and a section that analyzes, in comparative form, the environmental consequences on the global commons of the proposed action and of reasonable alternative means of structuring the project. Based on our research it is clear that cumulatively the power and energy sectors require a sectoral environmental impact statement prior to the funding of further projects in these two sectors.

Financing of large conventional power projects and fossil fuel field development has wide-sweeping effects on the energy sectors of developing countries, encouraging further utilization of fossil fuel energy and power plant development. According to OPIC's Environmental Handbook, the Agency is to 'take into account in its decision-making process the overall environmental effects of which its involvement is a part.' However, no defined criteria or methodology is offered to demonstrate the manner in which OPIC is to evaluate the cumulative environmental impacts of its portfolio. Since OPIC and Ex-Im are increasingly focusing their efforts on the power and fossil fuel energy sectors, it is imperative that these ECAs include rigorous and detailed proposals for evaluation of the entire power and energy sector, specifically with regard to the overall climate change impacts of their investments. This evaluation should track aggregate greenhouse gas emissions (including latent emissions connected with fossil fuel exploration and development) stemming from their assistance portfolios into a thorough analysis of the sectoral climate impacts of US ECA commitments, and fully evaluate other economic alternatives.

OPIC and Ex-Im environmental guidelines should attempt to account for the indirect and qualitative effects of projects on the energy sectors of developing countries, recognizing that large power plant and fossil fuel development projects often divert disproportionate amounts of development capital, thereby often functionally locking developing energy sectors into certain structural patterns and fuel mix requirements. Equally important, OPIC and Ex-Im projects may have a significant indirect sectoral impact on energy development in developing countries-in a positive sense. This information, developed as part of a "sectoral EIS," or otherwise, would give both ECAs the opportunity to evaluate 'cumulative and indirect impacts.'

A sectoral EIS can be justified both for reasons related to the impact on the global commons (as elaborated above) and in order to provide transparent calculations for future JI or CDM activity in the region.

The sectoral EIS should also evaluate the purpose and the actual need for proposed individual projects and identify a thorough range of alternative applications that are renewable and climate-friendly, while meeting host country energy needs.³