

Export-Credit Agencies and Energy in Asia: Prospects for Strengthening Climate Governance

Christopher Wright, PhD
Senior Researcher
SUM - University of Oslo
Pb 1116 Blindern, 0317 Oslo
Email: christopher.wright@sum.uio.no

SUM Working Paper 1/2011

Introduction

There is a growing interest among academics and policy-makers on how international trade influences the environment. It is increasingly recognized that incoherent policies across different policy areas – such as environment, social, trade, and security - is undermining efforts to mitigate climate change. In a surprise development, the G20 leaders recently committed to ‘rationalize and phase out fossil-fuel subsidies’ because they, among other things, ‘impede investment in clean energy sources and undermine efforts to deal with climate change.’ (Group of Twenty 2009) The scope of the G20 initiative includes supply-side subsidies that support fossil-fuel based energy production, such as direct grants, preferential tax treatments, and subsidized government loans. However, the G20 process has to date paid little attention to how the widespread government practice of financing domestic exports influences global efforts to curb global greenhouse gas emissions. (EDF 2009; Maurer and Nakhouda 2003; Schaper 2004; UNEP 2004) This is a missed opportunity.

This article will consider the relationship between official export financing and climate change. Governments provide export financing to support national exports of large manufactured goods with very high capital costs, such as airplanes, ships, weaponry, and equipment for power plants. Between 2002 and 2008, OECD governments provided \$2.9 billion/year of long-term export financing to carbon-intensive energy development and only \$534 million to exporters of low-carbon technologies, with large-scale hydro power accounting for a large share. (Corfee-Morlot et.al; OECD 2007a) Other estimates put export finance support for fossil fuels to more than \$10 billion annually. (GSI-UNEP 2010) In aggregate, export financing that locks in emission-intensive energy development for decades to come undermines the impact of public financing schemes specifically designed to mitigate long-term climate change, such as climate-related ODA (\$3.5 bill/year), projects financed by the Global Environment Facility (GEF) (\$163 million/year), and the climate investment funds managed by multilateral development banks. (\$6.4 billion in total donor pledges)

In considering ways to strengthen the climate governance of official export financing, the article will have a geographical focus on Asia’s energy future. Most OECD export credit-agencies have large financing portfolios in Asia, while intra-regional energy financing provided by state-owned banking institutions is growing rapidly. While governments in North America and Europe are increasingly building renewable energy generation capacity in their own territories, (OECD 2010), they are also providing financing to domestic companies engaged in building fossil-fuel based energy capacity in the developing world, including Asia. The International Energy

Agency estimates that in the absence of national or international regulations that limit or reduce greenhouse gas emissions, world coal consumption will grow by 56 percent by 2035, with non-OECD Asia accounting for 95 percent of the total net increase. (IEA 2010) As much of Asia's energy development will be externally financed, embedding international financing practices in a climate policy framework emerges as an important aspect of realizing the objective of the UNFCCC to prevent dangerous climate change.

The analysis identifies three international institutions that impact how and for what purposes governments provide export financing. First and foremost, the OECD has developed non-binding guidelines that govern financing terms and environmental and social due diligence practices. Secondly, the WTO has rules on what constitutes a prohibited export subsidy. And third, multilateral development banks have developed standards for managing the environmental impacts of project loans which shape the operational environment of both export companies and export-credit agencies. The ensuing analysis begins by introducing OECD export-credit agencies as influential actors in global energy markets. It then surveys the governance institutions regulating official export financing and summarizes financing activities in the Asian energy sector. Finally, it discusses ways in which climate considerations may be integrated into existing international institutions governing export-credit practices.

Export Finance and Development

Higher exports are almost universally viewed as a vital national objective. (Moravczik 1989) For the past two decades, the diffusion of public-private partnerships (PPPs) as a regulatory model in developing countries has provided new export opportunities for multinational companies in the energy sector. (Dubash 2002) Conversely, PPPs laid the groundwork for developing countries to attract foreign investment into economic sectors traditionally dominated by public ownership and regulation, including energy. (Woods 2006) Despite the growing receptiveness among governments towards foreign investors, the commercial viability of energy projects remains vulnerable to conventional credit risks as well as domestic political actions over which investors often have limited influence. A project that is profitable under one set of government policies could go bankrupt under a different set. (Rodrik 1995, p.7) Moreover, political upheavals, internal conflicts, currency devaluations, and breaches of contract by a government entity can all occur during a lifetime of contract and severely undermine the financial standing of the counterparty. As such, the availability and cost of political risk insurance has a significant influence on the volume and structure of international trade flows.

Export finance helps foreign investors mitigate risks by providing them with access to subsidized risk insurance, or indirectly, by making it less likely that host country governments breach legal contracts with project operators, suppliers, and lenders. We can distinguish between short-term trade financing, which covers risks up to two years and is mainly provided by private insurers, and medium- and long-term trade financing which is not considered 'marketable' and is generally covered by export-credit agencies. (Auboin 2009) The supply of the latter is particularly important for companies engaged in the export and import of energy-related manufactured goods, such as turbines for power generation. Such transactions are often embedded in large-scale energy projects that may take many years to plan, design, and construct. The

provision of loan guarantees, export credit insurance, and direct loans make it financially possible for exporters to accept deferred payments under conditions of high uncertainty.

Today, nearly all OECD governments, and a growing number of non-OECD governments, have established export-credit agencies to provide financing and risk guarantees in support of their respective export industries. (Singh 2009; Stephens 1999) Some are organized as government departments that report to particular ministries (UK and Switzerland), some are structured as more autonomous state-owned enterprises (Italy and Japan), whereas in a few cases, official export credits are channeled through a private company on the basis of an agreement with the host government. (France and Germany) In the period 1998-2005, the export-credit agencies of just five governments – United States, United Kingdom, Japan, France, and Germany – accounted for the bulk of OECD export credits. Moreover, the global volume of long-term export credits totaled £103 billion, of which exports to just seven Asian countries – Iran, China, India, Indonesia, Thailand, Korea, and Malaysia – accounted for approximately 30 percent. (OECD 2007a) Beneficiaries tended to be large, well connected, and companies, operating in strategically important industries, such as aerospace, energy, shipping, and armaments. In the energy sector, forty percent of export financing by volume between 1990 and 2005 was provided to just ten multinational energy companies. (Tenenbaum and Izaguirre 2007)

Beyond its impact on international trade patterns, there has long been a broader debate about whether official export financing is compatible with sustainable development principles and objectives. In the 1990s, export credit agencies supported IPPs in the Indonesian energy sector despite knowing that many power purchase agreements between the government and private companies had been signed in secrecy and under a cloud of corruption. Aside from running up unproductive debt, environmental groups have criticized the financing of large dams in developing countries that force riverside communities to relocate from their homes and submerge large areas of natural habitat. Many NGOs have called on governments to unilaterally stop financing for fossil fuel based energy development and promote international rules that place international carbon constraints on all international export financing. (EDF 2009; Friedman 2010) In all these cases, there is a perceived conflict between promoting national exports in support of national economic objectives and a variety of public interests in host countries or the world at large.

At the domestic level, official export financing is commonly governed by ministries in charge of trade, commerce, and/or foreign affairs. The limited international rules governing the provision of official export financing have been negotiated by OECD member governments under the auspices of the OECD's Working Party on Export Credits and Credit Guarantees. (referred to as the Export Credit Group / ECG) There are two OECD-negotiated rule structures; one governing financing terms, referred to as *the Rules of the Arrangement on Officially Supported Export Credits* (or the Arrangement), and another governing environmental and social due diligence practices, referred to as the *Recommendations on Common Approaches on Environment and Officially Supported Export Credits*. (known as the Common Approaches) (OECD 2007, 2009)

The OECD Arrangement

In the late 1970s, OECD governments negotiated the first version of the Arrangement a means to prevent a war of export subsidies between their respective export-credit agencies. (Moravcik 1989; Stephens 1999) The framework functions as a highly flexible and ‘self-designated gentleman’s agreement’ between OECD governments that is hosted by the OECD’s Export Credit Group. (Levit 2004, p.77) In 1998, the EU Directive on Medium and Long-Term Export Credit Insurance made compliance with the Arrangement a legal obligation for E.U Member States. Since its inception, the Arrangement has been the subject of more than 100 inter-governmental meetings between OECD governments. Its regulatory functions are three-fold. First, it has been used by OECD governments to find agreement on the amount of subsidy they can provide their respective export industries by defining restrictions in areas such as interest rates, fees, maturities, down payments, and repayment schedules. They have also negotiated special terms for project financing, and financing involving ships, civil aircraft, nuclear power plants, and renewable energies and water projects.

Secondly, the Arrangement has facilitated the creation of a collective notification, reporting and accountability framework among export-credit agencies. As part of the rules, each agency is required to notify others of impending transactions and report aggregate data on export finance provision to the OECD Export Credit Group ECG for public dissemination. And third, it is used to negotiate and determine adjustments to these limits on the basis of changes in international capital markets. While an OECD institution, the Arrangement has gained broader legal standing by being recognized within the WTO. In 1979, OECD governments were successful in inserting a ‘safe harbor clause’ for official export financing in the General Agreement on Tariffs and Trade (GATT) subsidy code, which was readopted in 1995 and inserted into the WTO Agreement on Subsidies and Countervailing Measures (ASCM). (Annex 1, Item (k)), entailing that an official export credit does not qualify as a prohibited export subsidy if it complies with interest rate provisions defined in the Arrangement.

The OECD Common Approaches

Compared to the Arrangement, the Common Approaches have a much shorter history and lack the same level of comprehensiveness and specificity. While the Arrangement emerged out of a mutual interest among governments to self-regulate pricing, the Common Approaches were developed largely in response to external pressures for greater environmental accountability and transparency. (Nakhoda and Maurer 2003) In 1997, a group of NGOs formed ECA Watch, a network to coordinate campaigns against export-credit agencies. (www.eca-watch.org) Apart from calling for the withdrawal of export-credit agencies from projects they viewed as harmful, the network demanded that they adopt and comply with international environmental and social standards, notably the World Bank’s Safeguard Policies. In 2000, over 400 civil society organizations signed the Jakarta Declaration, a manifesto demanding that export credit agencies become more transparent, adopt binding environmental and human rights standards, fight corruption, cease financing to non-productive ‘white elephant’ projects, and cancel debt to the poorest countries. Since then, ensuring that official export financing does not contribute to long-term climate change has emerged as a central objective for the campaign.

In 1999, a G8 statement proclaimed the need to integrate environmental considerations into export financing practices and align standards with those of the multilateral development banks. In 2001, a G8 Renewable Energy Task Force called on OECD countries to include minimum standards for energy-efficiency or carbon-intensity in the environmental guidelines for export credit agencies (Schaper 2004). In 2003, after two years of tense negotiations, OECD governments adopted the Common Approaches; a set of non-binding, consensus-based rules for harmonizing environmental and social standards attached to the provision of medium- and long-term export credits. The framework essentially adopted the practice of environmental review developed by multilateral development banks which details procedural steps for identifying, assessing, and analyzing the environmental and social impacts of financing proposals, proposing mitigation actions, and monitoring implementation.

Compared to the operational policies of multilateral development banks, the Common Approaches contain more discretionary language that gives significant implementation flexibility to export-credit agencies. The current version commits them to publish an environmental policy, adopt the environmental screening process used by multilateral development banks, and “benchmark” projects against host country standards and the IFC Performance Standards in the case of private sector projects. (OECD 2007, pp.5-6) They are also required to report on implementation to the OECD secretariat on a semi-annual basis in order to facilitate joint reporting of official export financing data. Moreover, provisions for addressing climate impacts remain weak, reflecting a gap in the IFC Performance Standards.

Transnational Governance Networks

In parallel with the evolution of inter-governmental rule-making within the OECD, a number of informal networks of banking and insurance professionals have expanded in scope and scale. Since its inception in 1934, the Berne Union has become an increasingly influential trade association for the global export insurance industry. Administered by a small secretariat in London, the Berne Union currently has over seventy members (both public and private insurers) from more than sixty OECD and non-OECD countries, representing more than \$15 trillion in new insurance business in 2008. Membership is based on meeting a set of maturity criteria, as well as gaining approval among existing Berne Union members. It has created the Prague Club, a network specifically designed to help newly established export-credit agencies meet the Berne Union’s membership requirements.

Whereas rule-making at the OECD is mainly conducted by government officials through formal channels, interactions within the Berne Union are practitioner-driven and highly informal. It has developed a set of Guiding Principles that emphasize a commitment to promoting trade and investment in accordance with laws and agreements, transparency, and financial professionalism. In terms of the environment, the Guiding Principles state that “[Members] are sensitive about environmental issues and take such issues into account in the conduct of our business” (Principle 6), whereas its Values Statement commit members to be ‘respectful of the environment and ... demonstrate high ethical values.’ (Berne Union 2010) Of the sixty-five specialist events hosted by members of the Berne Union since 1975, only one meeting in 2001 had environmental issues as the lead topic. (Berne Union 2010, p.82) This reflects how practitioner networks have been fairly insulated from the external

pressures for greater transparency and accountability that were so influential in the emergence of the Common Approaches.

The Berne Union has also encouraged informal interactions with and among Asian insurance professionals with the establishment of an Asian Regional Cooperation Group. (RCG) It has provided a discussion forum for strengthening regional responses to the recent shortfall in trade financing and resulting in seven bilateral reinsurance agreements. (Berne Union 2009) In addition, the group has made possible new forms of knowledge diffusion and capacity-building to strengthen regional export finance capacity. As an example, NEXI, the Japanese export-credit agency, holds an annual risk training seminar for smaller export-credit agencies in the region. (NEXI 2010) The RCG complements the activities of the Asian Exim Bank Forum, an initiative led by the Export-Import Bank of India to enhance cooperation between Asian public banking and insurance institutions. It has created a Training Committee that meets annually to provide training to risk insurance professionals at member institutions, and established close links with the ADB. (Berne Union 2010) Of the eleven meetings held since 2006, three have covered topics related to official export financing and the environment, including financing for clean energy.

Besides networks of public and private insurance professionals, recent years have also seen the deepening of informal interactions between public and commercial banking institutions and export credit-agencies on environmental matters. In 2003, a group of commercial banks based in OECD countries launched the Equator Principles, a set of environmental and social risk management standards and procedures for project financing based on the policy framework of the IFC, the World Bank's private sector financing arm (Equator Principles 2006) To date, more than seventy public and commercial banking institutions have pledged to follow them, including several export-credit agencies. The private, transnational association established by commercial banks to oversee revisions of the framework has created a working group to maintain a dialogue with export-credit agencies and the OECD on the development of standards related to environmental and social due diligence. They have also created five separate working groups to actively engage with banks in China, Russia, India and other key developing countries with large state-owned banking and insurance institutions. In December 2010, the Equator Principles Strategic Review Meeting was held in China, reflecting the strategic importance they attribute to diffusing the framework among banking institutions in China and the region at large.

Export Finance and the Energy Sector

Given that long-term energy investments are capital-intensive and fraught with political risk, export financing has traditionally played a significant role in enabling international trade in energy-related manufactured goods. In the 1990s, it was instrumental in mobilizing financing for oil, gas, and coal-based power plants in Indonesia, the Philippines, and other countries that were operated by independent power producers (IPPs) and structured as public-private partnerships (PPPs). (Dubash 2002) More recently, the IFC, alongside the Asian Development Bank (ADB) and the Korean export-credit agency, provided financing for the \$4.2 billion Tata Mundra project, a 4,000-megawatt coal-fired power plant that is being developed in the Indian state of Gujarat. Environmental Defense (2009) estimated that export credits and multilateral loans to coal-fired power plants since 1994 have generated CO₂

emissions equaling 77 percent of annual coal-related emissions in the E.U power sector.

Compared to the volume of export financing supporting companies engaged in fossil fuel-based energy development, export financing that benefits renewable energy remains comparatively modest overall. Between 2000 and 2008, OECD export financing flows to renewable energy did not exceed one percent of total flows in any given year. (OECD 2010; UNEP 2004) Moreover, most renewable energy financing has benefitted large-scale hydropower development, with wind, solar, biomass, and geothermal receiving an even lesser share. The Three Gorges Dam in China was supported by the export credit agencies of Germany, Switzerland, France, Canada, Japan and Sweden. Export financing from the French, Norwegian, and Swedish governments was central to the realization of the Nam Theun 2 Hydropower Project, Laos' largest hydropower development. The few governments that provide a large share of their export financing to the clean technology and renewable energy sector tend to have developed a large and mature export industry through regulatory and fiscal policies. For example, one-third of official export credits issued by the Danish export-credit agency supports wind energy projects, reflecting the international orientation and competitiveness of its wind energy industry. The U.S Ex-Im Bank has managed an Environmental Export Program since 1994 and increased its renewable energy investment ten-fold between 2008 and 2010 to \$300 million. (Friedman 2010) Yet, this is still far short of its support for fossil fuel-related energy projects, which accounted for \$1.5 billion in 2009 alone.

Encouragingly, selected governments have recently introduced or expanded green export financing schemes. In 2009, Japan Bank for International Cooperation (JBIC) allocated \$5 billion to support Japanese exports and investments with a strong focus on renewable energy and water projects in Asia. Korean Ex-Im Bank's Green Pioneer Program is expected to provide \$20 billion annually until 2020 to 200 companies engaged in clean energy technologies and renewable energy. Since 2003, the UK's ECGD has made £50 million available on annual basis for promoting renewable energy technology in developing countries, but has seen little uptake among British exporters. This highlights the extent to which having a sizeable export industry in the clean energy sector is a precondition for 'greening' the investment portfolios of export credit agencies. Moreover, it would also hinge on complementary regulatory actions in importing countries that provide favorable investment conditions for green technology choices. (Dubash 2002)

There is also some movement on negotiations between OECD governments over rules that would allow export-credit agencies to provide more generous pricing to exporters engaged in clean energy. In 2009, they adopted a revised version of a *Sector Understanding on Export Credits for Renewable Energies and Water Projects* that allows borrowers extended repayment terms of eighteen years. (up from fifteen years) (OECD 2010) This amendment to the Arrangement was meant to facilitate the financing of projects with lower annual cash flows as the repayment of the loan could be spread over a longer period of time. This has triggered negotiations over a broader Climate Change Understanding that would also cover projects with low to zero carbon emissions or high energy efficiency. (de Recolfis 2010) According to data reported by OECD export-credit agencies and released by the OECD, the sector understanding resulted in £685 million in combined financing across ten new projects

during the first three years, the bulk of which benefitted hydropower (three projects, £437 million) and wind energy (five projects, £250 million). (OECD 2009a)

In contrast to most export-credit agencies, multilateral development banks have supplemented the introduction of new climate-related investment programs with the setting of renewable energy portfolio targets. The IFC is projecting it will achieve its target of doubling to tripling its renewable energy and energy efficiency investment volumes over the 2009-2011 period compared to the \$1.1 billion invested in 2005-2007. (IFC 2009a) In 2009, more than 60 percent of IFC's commitments in the power sector, both in terms of number of projects and volume, supported renewable energy, such as hydropower, solar, wind, geothermal, and biomass. The private sector energy investments of the Asian Development Bank (ADB) increased twelve-fold between 2001 and 2009 with projects with "clean energy components or attributes" accounting for the largest share of the growth. (ADB 2009) Together with the regional development banks, the IFC co-administers the Climate Investment Funds (CIFs), a donor-funded basket of special funds – the Clean Technology Fund, the Strategic Climate Fund, and the Forest Investment Fund - that provide financing to both the public and the private sectors. Since being launched in 2009, the CIFs have allocated more than a \$1 billion in the Asia and Pacific region. To date, thirteen countries have been approved for financing, including Indonesia (\$3.1 billion), Thailand (\$4.2 billion), the Philippines (\$2.7 billion), and Vietnam (\$3.4 billion). (World Bank 2009a)

Options for Strengthening International Governance

The political economy of international energy financing in Asia is rapidly changing. A notable recent development is the growth of regional energy cooperation, including the rise of domestic and intra-regional financing from sovereign banks and funds. (Sovacool 2009) Following the collapse of banking sectors in many Western countries in 2008, public investment from China, Japan, India, and Singapore became increasingly influential in funding capital-intensive projects across Asia. In 2009, the State Bank of India (SBI) surged to the top of the global league table for project financing after European and North American banks had dominated the list for a better part of a decade. (Santiago 2010) Similarly, several Chinese banks have become increasingly influential in providing loans to Chinese developers engaged in energy projects in the region (EDF 2009, p.7) For example, the Bank of China and Sinosur, the Chinese export-credit agency, provided financing to the Indonesian energy company PLN to cover the construction costs of two coal-powered plants and the Chinese Ex-Im Bank extended a \$891 million loan in support of a coal-fired power plant in Sri Lanka. (Krisnantari 2008) Similar, the trend towards intra-regional financing is in part driven by the growing market share of Asian energy companies in the region. (Tenenbaum and Izaguirre 2010) These trends point to the ongoing changes in the composition of long-term credit markets towards a greater diversification of funders and operators of energy development in the region.

These developments are posing a challenge to the legitimacy and effectiveness of the current OECD-centered governance structures. The subsequent analysis will consider the potential and viability of three pathways to strengthen international environmental governance of export financing practices.

Expanding the Club

When international regulation is created and maintained by ‘clubs’ of governments, membership criteria serve to exclude governments with different preference orderings. (Drezner 2007) While excluding major economies, the exclusive governance structure of the Arrangement and the Common Approaches can be defended on environmental grounds. Retaining a ‘club’ structure that gives North American and European governments disproportionate influence may be an advantage for environmental NGOs based in the UK, Germany, the Netherlands, and the US that have achieved some success in leveraging the power of their respective governments in the negotiations to push for environmental rules. Moreover, it has become customary for these governments, as well as the OECD itself, to hold policy consultations with NGOs on environmental matters related to export financing. While commitments to transparency and accountability in the area of the export financing vary across all governments, they may be particularly weak among large developing countries without a history of domestic environmental campaigns against their respective export financing practices. In addition, the technical and flexible orientation of rule-making processes in the OECD is highly conducive to promoting harmonization of practice in dynamic and highly technical policy areas such as export financing. Indeed, the Arrangement has been successful in achieving its narrow mandate to gradually reduce the level of subsidy in OECD export financing by defining specific financing rules and achieving compliance through a voluntary notification system.

However, the eastward movement of power in the global economy suggests that international rule-making that excludes many developing countries with growing export industries will gradually lose its legitimacy and effectiveness. The importance that banking and insurance professionals involved in the Berne Union and the Equator Principles attribute to engaging with Asian banks and insurers highlights the market demand for greater harmonization. Export industries in OECD countries have argued that rules only pertaining to OECD export credit-agencies may place them at a disadvantage relative to competitors from non-OECD countries. (EBF 2010) In 2009, the British Exporters Association, whose members include banks, insurers, and major export companies, called on the UK’s ECGD to ‘overhaul its excessive Business Principles’ – the document outlining its environmental and social guidelines – claiming that they create a burden of red tape that disadvantages British exporters. (BxEA 2009) In 2010, the ECGD weakened a policy that prohibited financing to projects that would harm child workers' education, health or development. Similarly, in response to calls from environmental groups for adopting an aggressive low-carbon energy strategy, a spokesman for the U.S Ex-Im Bank stated that a unilateral decision to stop providing export financing to fossil fuel projects would simply shift jobs to other countries. (Friedman 2010) Particularly after the financial crisis, OECD countries looking to domestic export industries to lead a national economic recovery have hesitated to propose and accept rules that do not apply to some of their fiercest economic rivals in the developing world. (Singh 2009)

To counter such resistance, the OECD should expand the practice of allowing non-OECD governments to apply for observer status and participate in official meetings and policy reviews with OECD governments, including in the OECD Export Credit Group. The revised Common Approaches urges OECD governments to increase

awareness and understanding among non-OECD governments of the benefits of applying the framework to their official export financing activities. (OECD 2007) The OECD has instituted an enhanced engagement program with five countries – Brazil, China, India, Indonesia, and South Africa – which has resulted in their participation in regular export credits meetings and in the review of existing disciplines on export credits related to civil aircrafts and nuclear power plants. It has invited Brazil as a formal participant of the Sector Understanding for Civil Aircraft since 1986 given the economic importance of its civil aircraft market. (Ratton Sanchez 2008) Secondly, a more inclusive negotiating process hosted by the OECD could be supported by consensus statements on official export financing negotiated through the G20 process, a more inclusive forum than the G8. There are signs that this is already happening. At the London Summit in 2009, the G20 leaders announced a joint intention to augment export financing and multilateral lending by \$250 billion to help to counter the decline in commercial trade financing. The European Commission has produced a document with guidelines for how EU member states should address official export financing rules in bilateral talks with China and raised the prospect of holding multilateral talks under the auspices of the G20. (EC 2010)

While the G20 has emerged as a focal point for global economic governance, it has yet to build on the precedents set by the G8 and produce consensus statements on the need to integrate environmental considerations into national export financing practices. In a time when the fault lines in international climate politics are increasingly between OECD and non-OECD governments (Falkner et. al 2010), such cooperation may seem unlikely. The U.S and China have already clashed over Chinese subsidies for wind energy and both may find it difficult to accept international constraints on their export promotion activities. However, in light of climate policy developments at the domestic level in Asia, the inclusion of large non-OECD countries in the negotiations may serve to raise the profile of environmental issues. Analysis of post-crisis stimulus packages across major economies revealed that China and South Korea allocated the largest share to ‘green’ economic sectors and activities. (Barbier 2010) India has introduced a new coal levy that may annually raise \$550 million for clean energy and committed to reduce the carbon intensity of its economy by 25 percent by 2020. The ASEAN countries have adopted regional renewable energy targets and pledged to expand cooperation around clean energy. (ASEAN 2010; Sovacool 2009) As more and more countries put in place fiscal and regulatory policies that encourage the growth of a domestic clean energy industry, they may be inclined to push for international rules that give these industries competitive advantages in foreign export markets.

Reforming the WTO

In contrast OECD recommendations, rules embedded in the WTO are binding and can be legally enforced. Export subsidies are recognized within the WTO as trade-distorting by providing unfair advantages to recipient companies and reducing the transparency of commercial transactions. The GATT of 1947 committed contracting parties ‘to cease to grant either directly or indirectly any form of subsidy on the export of any product other than a primary product’ by 1958 or ‘the earliest practical date thereafter.’ (Ratton Sanchez 2010, p.12) In the ensuing decades, governments negotiated a detailed list of prohibited subsidy practices and introduced procedures to encourage inter-governmental notification and information-sharing. At the time, a

small group of industrialized countries accounted for a large share of world trade and held discussions on harmonizing terms for export credits under the auspices of the OECD. The amendment to the GATT subsidy code in 1979 (which were transferred to the ASCM with the creation of the WTO in 1995) prohibited governments from providing export credits below market rates in so far as this was done to secure a material advantage in the field of export credit terms. However, export credit practices that conformed to the interest rate provisions of ‘an international undertaking on official export credits’ (implicitly the OECD Arrangement) would not be considered prohibited.

The link between the ASCM and the Arrangement ensures that the international legal standing of the latter can indirectly be influenced and amended by WTO parties. As an alternative to reforming the Arrangement, international environmental regulation of export-credit practices could therefore be strengthened by amending the subsidy provisions of the ASCM. This route to reform has two distinct advantages. The first is that the international regulation of export-credit practices would be undertaken through a multilateral approach encompassing all parties to the WTO, rather than within the current ‘club’ structure limited to OECD governments. This would not only include a large number of host countries that are directly implicated in export-finance transactions, but also a much larger number of developing countries who are rarely parties to such transactions at all. In addition, the inclusion of countries predicted to face the highest adaptation costs to climate change should also put more pressure on industrialized countries to accept environmental constraints on their export financing practices. The second advantage is that the eventual rules could be legally enforced through the WTO’s dispute settlement mechanism. In contrast, governments have not given the OECD powers to sanction non-compliance with its policy recommendations.

The G20 initiative on phasing out fossil-fuel subsidies seemingly provides an opening to address the climate impacts of export-credit agencies. However, since international policy-makers tend to draw on the ASCM for definitions of what constitutes an export subsidy, export-financing practices that conform to the Arrangement have not yet been part of these discussions. The prospects for reaching an international agreement on including environmental considerations into what constitutes a permitted export credit are also mixed. While governments may free up significant public resources through a reciprocal lowering of domestic energy subsidies, export-financing schemes often provide significant economic benefits to both export- and importing countries. The former can generate tax revenues and domestic employment opportunities, whereas the latter can access foreign investment, technology, and resources necessary for the construction of large, capital-intensive energy projects. As a result, it is unlikely that governments directly implicated in export finance transactions would contest the legality of the practice. More broadly, as the regulatory function of the ASCM is to designate certain practices as illegal because of their distortionary effects on trade, there is limited scope within the agreement to prohibit export financing to fossil-fuel projects that does not contain a subsidy element. In turn, achieving greater synergies between the ASCM and the UNFCCC would seemingly require broader WTO reforms that provide more space for legal provisions that ban certain economic activities purely on ecological grounds.

Setting Standards through Multilateral Development Banks

Expanding the ‘club’ structure of the OECD would enhance the legitimacy and effectiveness of policy-making, whereas amendments to the WTO could make new environmental rules legally enforceable. A third pathway towards reform is to enhance the climate governance of export credit practices through multilateral development banks. Since 1990, multilateral financing to private sector entities has risen from \$4 billion to more than \$40 billion. (IFC 2009) As part of a broader mandate to promote private sector development, multilateral development banks commonly broker negotiations between private investors and host governments, arrange financing packages, prepare impact studies and mitigation plans, conduct public consultations, provide management training, and monitor and report on project outcomes. (Woods 2006, p.65-84) This makes them central actors in the energy sectors of developing countries. Many of the governments with the largest export-credit agencies hold influential positions on the boards of multilateral development banks, and dominate policy discussions within the G8, the G20, and the OECD. At the transaction level, they frequently provide loans to large projects under a single syndicated loan structure. In other cases, export-credit agencies may provide risk insurance to private exporters supplying goods and services to projects that are financed in part with multilateral loans.

These inter-relationships provide a rationale for harmonizing operational standards. Given the institutional link between the IFC Performance Standards, the Common Approaches, and the Equator Principles, there is scope for IFC to take the lead in setting carbon mitigation standards for the energy sector. There are signs that this is happening. The IFC is currently undertaking a review of its environmental and social policy framework and there is evidence that it will adopt new provisions for managing the climate impacts of its investments. In so far as OECD governments decide to retain the link between the Common Approaches and the IFC Performance Standards, export-credit agencies would also be subjected to these new rules. Based on consultation drafts released in December 2010, the IFC intends to address climate change as ‘one dimension of a balanced approach to supporting access to modern, clean, and reliable energy services.’ (IFC 2010, p.25) It will follow a two-pronged strategy centered on promoting renewable energy, clean technology, and energy efficiency through innovating new financial products and services, and managing carbon-intensive projects by expanding greenhouse gas accounting and climate change risk assessment. Projects generating more than 25,000 tons CO₂-equivalent per year will be required to annually report their carbon emissions, ‘to demonstrate good international industry practice’ and ‘to consider additional measures to further reduce emissions.’ (IFC 2010, p.14) While the implementation of these standards would encourage public disclosure of facility-level greenhouse gas emissions across the developing world, it would not prevent emission-intensive power plants from being built.

During the past decade, multilateral development banks have been under considerable pressure by environmental groups to more aggressively promote low-carbon energy development. (EDF 2009; Nakhooda and Maurer 2003) In 2003, a high level panel of experts commissioned by the World Bank to review its engagement with the extractive industries - the Extractive Industries Review (EIR) – recommended that it phase out financing for oil, gas, and coal. (EIR 2003) In response, the World Bank has argued that rapidly expanding large-scale fossil fuel-based power generation to meet

the demands of the poor in developing countries may in some circumstances be justified. (World Bank 2004, p.41) For example, in defending the use of scarce resources to support the Tata Mundra project in India, the IFC stated the coal-fired power plant will supply affordable electricity to industrial and agricultural users and 16 million domestic consumers, while also becoming India's most efficient by using supercritical technology (IFC 2008) This last point has been disputed by one observer who claimed the technology would have been used anyway, regardless of IFC's participation. (Wheeler 2008) Similarly, the ADB defended its involvement by arguing that the project would "provide a significant volume of additional electricity to address power shortages" and "show good practice in building and financing large-scale power projects in India through public-private partnerships." (ADB 2008)

The continued multilateral financing of coal-fired power plants underscores the extent to which the mandates and operational structures of multilateral development banks do not easily accommodate calls for dramatic transformation of their energy financing. Given that renewable energy projects are often associated with higher administrative costs, longer repayment periods, and greater credit risks than those relying on firmly established and tested technologies, they are not always deemed 'bankable' within the commercial financing models employed by multilateral development banks. This explains why the climate investment funds, the primary means of channeling multilateral financing to clean energy markets, depend heavily on concessional funds from donor governments. Commercial feasibility is also a dominant criteria is setting carbon mitigation standards. Rather than impose a blanket restriction on certain types of emission-intensive energy projects (such as coal-fired power plants), the current draft of the IFC's new policy framework states that it will promote 'the ability of private sector companies to adopt [clean] technologies and practices as far as their use is feasible in the context of a project that relies on commercially available skills and resources.' (IFC 2010, p.61) Even the donor-funded Clean Technology Fund, specifically mandated to promote a low-carbon energy transition, can be used to support coal-fired power plants with supercritical technology if they can be demonstrated to have a transformational impact on greenhouse gas emissions. (World Bank 2009b)

Conclusion

The article has identified how the mandates and practices of export-credit agencies are deeply entrenched in institutional structures at the domestic and international level that are insulated from those created to address global climate change. An overarching imperative flowing from this analysis is the need to integrate national and international trade policy with national climate mitigation commitments and the international climate regime. This involves transforming domestic and international institutions that were initially created for very different political and economic purposes. Whereas multilateral development banks have proven moderately receptive to incorporating environmental objectives into their financing programs, export-credit agencies remain highly resistant to adopting new policy objectives. As one former secretary-general of the Berne Union has stated, "export-credit agencies are not sources of foreign development aid and their facilities normally follow trade rather than initiate or lead it." (Berne Union 2010, p.55)

In considering pathways to improve governance, the overview has identified a few possible entry points. First, the decision by OECD governments to link the Common Approaches with the IFC Performance Standards provides an opening for the IFC to set standards for export-credit agencies. The emergence and diffusion of the Equator Principles further increases the market legitimacy of the IFC Performance Standards and its leverage to set standards for global project- and export financing. Secondly, the recent discussion in the G20 about the ecologically harmful effects of fossil-fuel subsidies has usefully shed light on fiscal policies motivated by various political objectives that undermine climate mitigation efforts. This focus could trigger a broader discussion about the legitimacy and efficacy of export financing that encourages high-carbon energy development in developing countries without carbon regulation. And third, the ongoing negotiations within the OECD over drafting a broader Climate Change Understanding signals a growing recognition among OECD governments that export financing needs to be more responsive to the climate mitigation agenda. These developments, coupled with the emergence of clean energy industries as important sources of export revenues in selected countries, provide some cause for optimism.

References

- ADB (2009), 'Transforming Energy Sector Operations in the Asian Development Bank', Asian Development Bank (ADB), 2009.
- ADB (2008). 'Private Equity Fund Operations', ADB Evaluation Study, Operations Evaluations Department, Asian Development Bank, July 2008.
- ASEAN (2010), 'ASEAN Plan of Action 2010-2015', The Association of Southeast Asian Nations, (ASEAN), November 2010.
- Auboin (2009), 'Restoring Trade Finance during a Period of Financial Crisis: Stock-Taking of Recent Initiatives', World Trade Organization (WTO) Economic Research and Statistics Division, December 2009.
- Berne Union (2010), 'The Annual Report of the Berne Union 2010', International Union of Credit & Investment Insurers (the Berne Union), London, UK.
- Berne Union (2009), 'The Annual Report of the Berne Union 2009', International Union of Credit & Investment Insurers (the Berne Union), London, UK.
- BExA (2009), 'Introduction of a Product Guaranteeing Reimbursement of UK Confirming Bank under Letter of Credit Arrangements', Submission to ECGD Consultation by British Exporters Association (BExA), May 7 2009.
- Corfee-Morlot, J., B. Guay and K. M. Larsen (2009), 'Financing Climate Change Mitigation: Towards a Framework for Measurement, Reporting and Verification', COM/ENV/EPOC/IEA/SLT(2009)6, OECD Publishing/IEA, Paris.
- Drezner D. (2007), *All Politics is Global – Explaining International Regulatory Regimes*, Princeton, NJ: Princeton University Press.
- Dubash, N. ed. (2002), *Power Politics – Equity and Environment in Electricity Reform*, World Resources Institute (WRI), Washington DC, 2002.
- EC (2010), 'Outcome of proceedings of the 520th meeting of the Export Credits Group on 10 September 2010', Council of the European Union, 14559/10, October 8 2010.
- EBF (2010), 'The 2007 Revised Council Recommendation on Common Approaches on the Environment and Officially Supported Export Credits', Views Submitted by the European Bankers Federation (EBF) to the OECD, June 4 2010.
- EDF (2009), 'Foreclosing the Future: Coal, Climate and Public International Finance', Environmental Defense Fund, Washington DC, 2009.
- Equator Principles (2006), 'Equator Principles', released July 3, 2006.
- EIR (2003), 'Striking a Better Balance – The World Bank Group and Extractive Industries: The Final Report of the Extractive Industries Review', The Extractive Industries Review, December 2003.
- Falkner, R., Stephan, H., and J. Vogler (2010), 'International Climate Policy after Copenhagen: Towards a 'Building Blocks' Approach', *Global Policy* 1(3), pp. 252–262.

- Friedman, Lisa (2010), 'Ex-Im Bank Approves New Scrutiny of Fossil Fuel Projects', *New York Times*, March 10 2010.
- GSI-UNEP (2010), 'Increasing the Momentum of Fossil-Fuel Subsidy Reform – Developments and Opportunities', joint conference report by the Global Subsidy Initiative (GSI) and the U.N Environment Program (UNEP), IISD: Geneva.
- Group of Twenty (2009), 'Pittsburg Summit Leaders' Statement, G20 Pittsburg Summit, September 24-25, 2009.
- IEA (2010), 'World Energy Outlook', International Energy Agency, 2010.
- IFC (2010), 'Progress Report on IFC's Policy and Performance Standards on Social and Environmental Sustainability, and Access to Information Policy - Review and Update Process', International Finance Corporation (IFC), December 1, 2010.
- IFC (2009), 'Annual Report 2009', International Finance Corporation (IFC), Washington D.C.
- IFC (2009a), 'IFC Road Map FY10-12: Background Paper', International Finance Corporation (IFC), April 2009.
- IFC (2008), 'IFC Invests in India's Coastal Gujarat Power, Expanding Access to Electricity', IFC press release, April 8 2008.
- Krismantari, I. (2008), 'PLN signs \$615m loan deals, workers continue rally', *The Jakarta Post*, January 31 2008.
- Levit, J.K. (2004), 'The Dynamics of International Trade Finance Regulation: The Arrangement on Officially Supported Export Credits', *Harvard Journal of International Law*, Vol. 45(1), pp.66-179.
- Maurer, C. and S. Nakhoda (2003), 'Transition from Fossil to Renewable Energy Systems: What Role for Export Credit Agencies?', *World Resources Institute Policy Brief*, December 2003.
- Moravczik, A. (1989), 'Disciplining Trade Finance: the OECD Export Credit Arrangement', *International Organization*, 43(1), pp.173-205.
- NEXI (2010), 'Training Program for Asian ECA Professional Staff', Nippon Export and Investment Insurance (NEXI) press release, February 12 2010.
- OECD (2010), 'Financing Climate Change Action and Boosting Technology Change: Key messages and recommendations from current OECD work', the Organization of Economic Cooperation and Development (OECD), December 3 2010.
- OECD (2009), 'Modifications to the Arrangement on Officially Supported Export Credits', OECD press release, January 21 2009.
- OECD (2009a), 'Renewable Energy and Water Sector Projects under Annex IV of the Arrangement', the OECD Working Party on Export Credits and Credit Guarantees (ECG), June 2 2009.
- OECD (2007), 'Revised commendation on Common Approaches on Environment and Officially Supported Export Credits', developed through the OECD Working Party on Export Credits and Credit Guarantees (ECG), agreed by the OECD Ministerial Council on December 18 2003. (TAD/EC/2007/9)

- OECD (2007a), 'Statistics on Export Credit Activities (up to and including the year 2005)', the OECD Working Party on Export Credits and Credit Guarantees (ECG), January 10, 2007.
- Recolfis, F. (2010), 'OECD and Export Credits', in *The Annual Report of the Berne Union 2010*, International Union of Credit & Investment Insurers (the Berne Union), London: UK,
- Rodrik, D. (1995), 'Why is there Multilateral Lending?', *NBER Working Paper No. 5160*, June 1995.
- Santiago, C. (2010), 'Project finance draws Asian liquidity', *The Asset Update*, April 7 2010.
- Schaper, M. (2004), 'Export Credit Agencies and Climate Change: What Can They Do about It?', International Network To Advance Climate Talks (INCTAD) Working Paper, 2004.
- Singh, K. (2009), 'The Changing Landscape of Export Credit Agencies in the Context of the Global Financial Crisis', report commissioned by FERN.
- Sovacool, B. (2009), 'Reassessing Energy Security and the Trans-ASEAN Natural Gas Pipeline Network in Southeast Asia', in *Pacific Affairs* 82(3), pp. 467-486.
- Stephens, M. (1999), *The Changing Role of Export-Credit Agencies*, International Monetary Fund, 1999.
- Tenenbaum, A, and M. Izaguirre (2010), 'Private participation in electricity: The challenge of achieving commercial viability and improving services', Gridlines No. 21, Public-Private Infrastructure Advisory Facility (PPIAF), May 2007.
- UNEP (2004), 'Making it Happen: Renewable Energy Finance and the Role of Export Credit Agencies', U.N Environment Program Finance Initiative (UNEPFI).
- Wheeler, D. (2008), 'Tata Ultra Mega Mistake: The IFC Should Not Get Burned by Coal', *Global Development: Views from the Center* [online]. Available from <http://www.cgdev.org/content/article/detail/15566/> : [Accessed September 10 2010]
- Woods, N. (2006), *The Globalizers*, Ithica, NY: Cornell University Press.
- World Bank (2010), 'Global Development Finance 2010', World Bank Group, Washington DC.
- World Bank (2009a), 'Independent Evaluation of IFC's Development Results 2009 - Knowledge for Private Sector Development', Independent Evaluation Group, World Bank Group.
- World Bank (2009b), 'CTF Private Sector Operational Guidelines', World Bank Climate Investment Funds, World Bank Group, January 12 2009.
- World Bank (2004), 'Striking a Better Balance – The World Bank Group and Extractive Industries: The Final Report of the Extractive Industries Review / World Bank Group Management Response', World Bank Group, September 17, 2004.