

ANALYSIS:

PUBLIC FINANCE FROM RICH NATIONS DRIVING FOSSIL FUEL EXPANSION



The nations of the Organization for Economic Cooperation and Development (OECD) meet this month to discuss proposals to restrict OECD public 'export credit agency' finance for coal power plants globally. Export credit agencies are government-owned agencies or quasi-governmental institutions that provide public financing and risk guarantees for their corporations overseas.

This briefing provides an analysis of a leaked OECD document¹ on export credits for fossil fuels. We find that over the last decade, export credits have played a significant role in supporting coal power generation globally. Most alarmingly, OECD export credit financing for coal has substantially increased in recent years.

Through continued public financial support to fossil fuel projects overseas, OECD nations are contributing significantly to climate change. While OECD governments are discussing limited restrictions on coal financing, they must take steps immediately to stop providing export credits and other public finance for all fossil fuels, as the climate crisis demands.

Key findings:

- OECD export credit agency finance for coal power has increased over the last eleven years;
- OECD nations' public support for fossil fuels over all is substantial – the estimate, that the OECD admits is incomplete, already averages \$8 billion annually;
- OECD export credits contribute significantly to global coal power capacity expansion, contributing to nearly one-quarter of new coal power outside of China;
- South Korea, United States, France, Japan and Germany are responsible for 92 percent of coal power plant export credits in the last 5 years;

- OECD export credit agency financing for fossil fuels continues to support dirty coal technologies, with over a third of financing going to subcritical plants;
- OECD export credit agency financing for fossil fuels does not support energy access; and
- OECD public financing information remains under a veil of secrecy.

All governments must make strong commitments to ending international finance for coal, including coal mines, infrastructure, and power plants, immediately, along with ending public support for all fossil fuels. OECD countries should make public commitments before the United Nations climate conference in December 2015.

OECD export credits are increasing for coal power

According to the OECD document, which focuses on coal power plant financing, over the last eleven years (2003-2013) OECD governments provided \$12.8 billion to coal power plants under terms specified in the OECD export credits 'Arrangement'.² In addition, at least \$6.3 billion was also provided under 'non-Arrangement' terms and political risk insurance for a total of over **\$19.2 billion in export credit agency finance** for coal power plants. The greatest amount of coal power capacity supported by OECD export credit agency finance took place in India, South Africa, Turkey, Viet Nam, Indonesia and Chile.

But over time, instead of reducing support for coal power as the climate crisis calls for, **OECD countries have ramped up export credit agency finance of coal plants**. Of the \$19.2 billion in export credit agency finance to coal power plants, 60 percent or over \$11.5 billion was provided in the last five years (2009-2013).

¹ Available at: <http://priceofoil.org/content/uploads/2015/02/OECD-Leak-Data-on-export-credit-for-fossil-fuels-Oct14.pdf>

² Arrangement terms cover direct export credit guarantee or insurance (pure cover), official financing support, including direct credit/financing and refinancing, or interest rate support, and tied aid, and only where repayment terms are more than two years. (See <http://www.oecd.org/tad/xcred/theexportcreditsarrangementtext.htm>) Non-Arrangement terms include: market window export credits, untied export credits, untied export credit insurance, and political risk guarantees/insurance (sometimes in relation to equity investments in the project). (See OECD leaked document.)

OECD nations provide significant public support for all fossil fuels

According to the OECD document on export credits for fossil fuels, over the last eleven years (2003-2013) OECD governments provided **\$89 billion in export credits to fossil fuel projects** under ‘Arrangement’ terms. This averages \$8 billion in fossil fuel financing every year. International public finance for fossil fuels in OECD countries is actually much higher than this, as the OECD document does not offer an amount for ‘non-Arrangement’ export credit support for fossil fuels outside coal, nor does it address non-export credit public finance, such as finance from state-owned or controlled banks, bilateral development finance, or multilateral development finance.

OECD export credits contribute significantly to global coal power capacity expansion

The OECD leaked document incorrectly concludes that: OECD “Arrangement export credit finance appears to be marginal” to new installed coal power plant capacity. The OECD assumes an average annual increase of 64.3 gigawatts (GW) per year from 2005 to 2012 and an average of 3.5 GW annually linked to OECD export credit finance (this is a low estimate as OECD was unable to identify all coal plant capacity and does not include non-Arrangement funds).

However, the OECD document neglects to consider that during this time period, China accounted for 49 GW or 76 percent of the annual global increase.³ According to the document, OECD countries did not provide any export credits for coal plants in China during this period.

When put into this context, from 2005 to 2012 **OECD-export credits contributed 23 percent of the approximate 15.3 GW of global annual new installed coal power capacity outside of China.** This is significant, as export credit financing is often a necessary component of private project financing that facilitates bringing projects to financial close. Furthermore, it is important to point out that as OECD export credit finance has ramped up in the last five years, so has the contribution to GWs of newly installed coal power capacity.

Top five countries are responsible for 92 percent of coal power plant export credits

In the last five years, only five OECD countries are overwhelmingly responsible for export credits supporting coal power plant expansion. These include: **South Korea, United States, France, Japan and Germany.** From 2009 to 2013, these five countries accounted for 92 percent of OECD ‘Arrangement’ export credits to coal power plants or \$7.4 billion out of \$8 billion. (See Table 1. OECD Export Credits for Coal Power Plants, 2009-2013)

Table 1. OECD Export Credits for Coal Power Plants, 2009-2013 (million USD)

	Arrangement Financing		Arrangement + non-Arrangement Financing
South Korea	\$2,044	Japan	\$4,116
United States	\$1,723	South Korea	\$2,469
France	\$1,720	United States	\$1,723
Japan	\$1,091	France	\$1,720
Germany	\$845	Germany	\$845

³ Platts, 2014. Rise in China's coal-fired capacity in 2014, 2015 may not boost thermal coal prices: UBS. May 5, 2014. Available at: <http://www.platts.com/latest-news/coal/singapore/rise-in-chinas-coal-fired-capacity-in-2014-2015-21573872>

According to the available data, of the remaining G7 countries – the United Kingdom, Italy, and Canada – Italy provided additional export credits for coal power from 2009-2013 totaling \$125.8 million.

According to the leaked OECD document, outside of coal power plants, a total of \$1.4 billion of OECD Arrangement export credits were provided to coal mining from 2009 to 2013. Germany accounted for \$800 million, or 56 percent of this OECD coal mining total, and the United Kingdom provided \$6 million during that time. Additionally, Canadian export credits were provided for coal export terminals outside of Arrangement terms (more than \$156 million).

However, these figures do not reflect all export credit financing. For example, separate data published by the United Kingdom indicate export credit agency financing for coal mining totaled closer to \$100 million with at least three projects between 2011 and 2013.⁴

OECD export credits for fossil fuels continue to support dirty technologies

Some countries argue that OECD members' fossil fuel financing is important in supporting less polluting fossil fuel technologies. But the reality is that any favorable terms for fossil fuels favor dirty technologies over cleaner, renewable options. In a climate-constrained world, there is no reason for fossil fuel technology that emits greenhouse gasses to receive the same beneficial financing terms as renewable energy.

Further, the OECD data shows that export credits for coal power are in fact NOT going to more efficient coal technologies. According to the OECD data, over a third of export credit support for coal – 35 percent – went to 'sub-critical' coal plants – the dirtiest and least efficient plants, with the bulk of support going to 'supercritical,' which is not the most efficient coal technology available today. Conversely, no support went to more efficient, 'ultra-supercritical' coal plants, or to coal plants with operational carbon capture and storage.

OECD export credits for fossil fuels do not support energy access

Another argument that is often made for fossil fuel power is that it is needed to support energy access for the poor. But in fact, export credit agencies have no development mandate and never assess the contribution of supported coal plants to energy access, nor do they have any requirements to consider access.

In general, very few large-scale fossil fuel projects create new connections to the grid for populations without power. In fact, even at the multilateral development banks, which do have a development mandate, fossil fuel projects do not target those without access to electricity: Of the fossil fuel-based projects financed between 2011 and 2013 at the major multilateral development banks, only one percent (by dollar amount) included provisions aimed at increasing access for poor populations.⁵

OECD financing information remains under a veil of secrecy

Non-governmental organizations have requested data from the OECD for years on the scope and size of fossil fuel export credits from OECD

⁴ "ECGD supported... a US\$12.8 million contract awarded to Joy Mining by Mechel for the supply of longwall mining equipment and a similar contract, valued at US\$6.8 million, was awarded to Joy Mining by SUEK, the largest coal producing company in Russia." See: http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/222383/uk-export-finance-annual-report-and-accounts-2011-12.pdf and "Four supplier credit finance guarantees, with a total value of £53.6 million, were provided in support of the supply of longwall mining equipment by Joy Mining to Russia." See: http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207721/ecgd-ukef-annual-report-and-accounts-2012-to-2013.pdf

⁵ Sierra Club and Oil Change International. Failing to Solve Energy Poverty: How Much International Public Investment is Going to Distributed Clean Energy Access? October 2014. http://priceofoil.org/content/uploads/2014/10/OCI_SC_Energy_Scorecard_Oct_14.pdf

countries because of the difficulty of tracking this data via public sources. Export credit agencies are now the largest class of public financing for fossil fuel projects world-wide, exceeding the public financing through the better known multilateral development banks such as the World Bank Group. Since export credit agencies utilize public resources, information on their activities should be readily available.

Based on the leaked document, it is clear that it is possible to compile data on export credits from OECD countries, although the OECD and others point out that the data is incomplete. The leaked document itself makes clear that the figures provided are under-estimating the reality, as the OECD itself does not have access to 'non-Arrangement' support data from OECD countries – nor do they require full reporting from their own member countries. It is unacceptable that this data continues to be confidential and that much of the financing still goes unreported. This demonstrates the veil of secrecy under which the export credit agencies operate. Public access to information on export credits for fossil fuels is particularly important now that climate commitments are under review.

Next steps: Stop Funding Fossil Fuels

Of the five largest coal plant export credit providers, two have clearly indicated they will move away from financing coal plants. The United States has pledged to significantly restrict international financing for coal plants as of mid-2013.⁶ France has also pledged to eliminate export credits for coal plant projects in developing countries.⁷ However, these commitments do not apply to coal mines and infrastructure, such as rail and ports.

Continued public support of fossil fuel projects is not consistent with climate goals. In addition to

export credit financing, OECD nations further support fossil fuels via development finance, majority state-owned banks, and through their stakes in multilateral development agencies. All governments must make strong commitments to ending international finance for coal, including coal mines, infrastructure, and power plants, immediately, along with ending public support for all fossil fuels. OECD countries should make public commitments before the United Nations climate conference in December 2015.

Cover Photo: Arnot Power Station, South Africa, Gerhard Roux, Wikimedia (GFDL)

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⁶ The White House Office of the Press Secretary. "Remarks by the President on Climate Change. Georgetown University Washington, D.C." June 25, 2013. <http://www.whitehouse.gov/the-press-office/2013/06/25/remarks-president-climate-change>

⁷ Reuters. France to stop credits for coal projects in developing countries. November 27, 2014. <http://www.reuters.com/article/2014/11/27/us-france-energy-coal-idUSKCN0JB17J20141127>