

Exporting Pollution: Double Standards in UK Energy Exports

GREENPEACE

Export credit agencies (ECAs) of developed countries are increasingly responsible for financing the infrastructure requirements of developing countries. This has significant implications for the global climate, as choices made now regarding energy development will determine the energy pathway of a country for the next 30–40 years. Unfortunately, the last ten years have already seen substantial financing by ECAs of fossil fuel power projects in developing countries – projects that will emit millions of tonnes of climate changing gases into our atmosphere for decades to come.

While the UK continues to fund the export of dirty coal technologies to poorer nations, the last coal-powered station to be built in the UK was constructed in 1972.

The UK Government facilitates the construction of these power projects abroad through the Export Credit Guarantee Department (ECGD). The ECGD reports directly to the Department of Trade and Industry (DTI) and exists primarily to help UK firms conduct business overseas, usually in the developing world where business risks are greatest.

Through the ECGD, the UK Government has funded fossil and nuclear power generation projects worth an average of £1.76bn every year since the United Nations Framework Convention on Climate Change was signed in 1992.

Since the Labour Government came to power in 1997, the ECGD under the control of Labour ministers has guaranteed finance to UK businesses involved in the energy industry that has cumulatively resulted in the emission of 13.3 million tonnes of carbon (MtC) per year.¹ This is the amount of carbon emitted into our atmosphere that is ‘directly attributable to ECGD’s participation’.²

13.3MtC is roughly equivalent to a third

of the annual emissions from the UK’s own power generation sector (41.917MtC in 2000) and represents a billion tonnes over twenty years.

This means that even if the Government meets its Kyoto commitments in full, half of the gains made will be cancelled out by those emissions that are ‘directly attributable’ to the ECGD.³

In comparison, between 1991 and 1998, the international Global Environmental Facility (GEF) approved just US\$1.9bn (£1.25bn) in total financing for renewable energy and energy efficiency – less than 2% of the amount invested in fossil fuel projects.⁴

As the largest emitters of harmful climate changing gases, developed countries must take responsibility to implement the greatest emissions reductions. This means introducing mitigation measures, and switching to renewable energy at home. But it also means ensuring that financing and investment in the energy sector of developing countries is complementary. The developing world has a right to increase its use of energy, and the ECGD should continue to enable UK firms to invest abroad. However, the services of the ECGD in the energy sector should be limited to the promotion of renewable energy technologies and systems, to be compatible with our climate commitments.

Export Credit Agencies

ECAs are the largest group of international finance institutions (IFIs) in the world. ECAs are government agencies that help private corporations from their home country to engage in business activities abroad by underwriting projects – effectively insuring them.

The ECGD is the UK’s official ECA. It reports to the Secretary of State for Trade and Industry, currently the Rt Hon Patricia

Hewitt. The ECGD works with project sponsors, banks and buyers to enable UK exporters to compete effectively in overseas markets where they are unlikely to get adequate support from the private sector.

The ECGD provides UK manufacturers and investors with insurance or backing for finance to protect against possible non-payment by clients overseas. By providing forms of insurance, and arranging finance facilities, the ECGD enables UK companies to invest in areas that pose a risk, primarily in the developing world – areas where private insurance would be hard to secure. This insurance is available for UK companies that export goods and services, and for investors in overseas projects such as fossil fuel power generation projects.

The ECGD issues on average about £4bn worth of guarantees a year.

The ECGD website states: 'It is unlikely that many of these orders would go through without the availability of finance on attractive credit terms. Quite often this finance would simply not be available without the involvement of Export Credit Agencies.'⁵ The ECGD is able to commit to longer term and higher value risks than the private sector, primarily because it has the support of the UK Government.

In order to ensure that UK exporters get paid within a reasonable amount of time after having completed their work, the ECGD essentially acts to provide security so that bank loans can be made available on behalf of overseas buyers. Exporters are paid in cash from the loans as they deliver their goods, leaving the overseas buyer with the obligation to repay over the agreed credit period. If the overseas buyer defaults on a payment, the ECGD then pays out for the claim made by the bank that actually put up the loan in the first place.

When a project fails, the ECGD takes on the debt owed, usually holding it against the national government concerned. At the moment, 95% of all foreign-owed debt to the UK is owed directly to the ECGD. In 1998, the foreign-owed debt owed to the ECGD totalled £8.5bn.⁶

ECAs exert powerful leverage because they draw in additional private finance for exports and overseas investment. On average, for every £1 of ECA financing £2+ of private capital is drawn in.

Export Credit Agencies and clean energy

Between 1990 and 1997, total financing by ECAs in OECD countries through loans, project guarantees, and investment insurance averaged US\$80bn–\$100bn (£55bn–£69bn) per year. This was about twice the level of official development assistance during the same period, and if the leveraging effect of ECAs is considered, the reach is even greater.⁷ Estimates suggest that collectively, the ECAs support twice as many fossil fuel based projects than do all multilateral development banks.

In November 2001, governments at the COP7 meeting in Marrakech⁸ agreed that ECAs should play a key part in ensuring the transfer of climate friendly energy technologies from developed to developing countries.⁹ This agreement informs the rules for implementing the Kyoto Protocol, which the UK Government has now ratified.

This suggests that the ECGD should already be following business principles that encourage this transfer of clean technology, but it is not. The Secretary of State for Trade and Industry stated on the 12 June 2002 that the ECGD has not provided any assistance to a renewable energy project in the past three years.¹⁰

In contrast, the US ECA, Ex-Im Bank, already has a self-established renewables target of 5%, and announced on 2 May 2002 that it has set up a renewables taskforce to encourage this transfer of renewable technologies.¹¹ The 5% target is small, but it is still an advance on the position of the UK ECGD, which is failing to take a proactive approach.

At a recent seminar in the House of Commons,¹² David Allwood, the Business Principles Advisor to the ECGD, stated that he did not believe that setting targets for renewables as part of the framework for deciding ECGD support would be viable. This is largely because the ECGD provides assistance to a project based purely on financial considerations. By setting a target for renewables, the ECGD could end up discriminating against projects it would otherwise support.

This argument does not sit well with the ECGD's own Business Principles which state: 'The ECGD will, when considering support, look not only at the payment risks but also at the underlying quality of the project, including its environmental, social and human rights impacts.'¹³ None of these are direct financial considerations in themselves.

ECGD – a history of dirty deals

Since Labour came to power, the ECGD has issued guarantees to fossil fuel power projects which, when they are completed, will cumulatively emit 13.3MtC/year. This plainly

demonstrates a lack of joined-up government.

The UK Government has now ratified the Kyoto Protocol and set up capital grants programmes for renewable energy technologies worth £163m. It has introduced the Renewables Obligation, which is expected to reach £1bn/year from 2010/11.¹⁴ Energy Minister Brian Wilson has also predicted that 2002 will be 'the year of renewables' in which the potential contribution of power generated from clean sources will 'finally be recognised in the UK'.¹⁵

And yet the fact remains that the activities of the ECGD since Labour came to power will cancel out half of the gains to be made by the UK in fulfilling its Kyoto obligations.

ECGD support for coal

Since 1992, the ECGD has provided 193 guarantees of support to 140 fossil fuel and nuclear generation projects and fossil fuel extraction projects in 38 different countries.¹⁶ For example, ECGD support has been received for coal projects in India, China, the Philippines, Indonesia, Malaysia, Hong Kong, South Africa, Zimbabwe, and Turkey.

Coal-fired power stations constructed with ECGD support since 1997

Project	Country	Company	Involvement	Capacity (MW)	CO 2 (Tonnes per year)	Loan Value £ million
Shandong	China	Mitsui Babcock Energy Ltd.	Supply of boilers	3,000	10.8 million	213.5
Bulawayo	Zimbabwe	Mitsui Babcock Energy Ltd	Refurbishment	120	0.4 million	5.6
Manjung	Malaysia	Alstom Power Ltd.	Engineering and construction	2,100	7.6 million	522.3
Alfin-Elbistan	Turkey	Corus UK Ltd.	Steel structures	1,080	3.9 million	8.4

Some coal power projects supported by the



China

- Dalate
- Dalian
- Dandong
- Fushan City
- Gao Bei Dian
- Nantong
- Shandong

Hong Kong

- Shaijao

India

- Balagarh
- Budge Bridge
- Naptha Jhakri

Indonesia

- Ombin

Malaysia

- Munjung

Philippines

- Sual

South Africa

- Majuba

Turkey

- Afsin-Elbstan

Zimbabwe

- Bulawayo
- Hare and Munyati

ECGD activity in the power sector

Asia attracts the largest investment interest from UK businesses wanting to invest in the power generation sector with ECGD support. This is unsurprising; it is predicted that in the very near future, growth in demand for energy in the region will exceed that in all the OECD nations combined. The five countries that have benefited the most from ECGD guarantees in this sector are China, Hong Kong, India, Malaysia and the Philippines.

The graph below shows the 'total contract value' and 'sum of guarantees' made available from the ECGD to power generation and fossil fuel extraction from 1992/93–2000/01 for these countries. The sum of guarantee is the maximum liability of the ECGD in each case.¹⁷

The largest recipients of ECGD finance assistance for fossil fuel power generation are countries that are set to experience some of the worst impacts of climate change.

ECGD and renewables

In contrast to this investment in dirty fossil fuel power generation, the ECGD has never supported a renewable energy project in the developing world. The ECGD claims that this is simply because it has had no 'serious' applications. In any case, the approach the ECGD takes towards facilitating access to its services for the renewables industry falls short of even the minor efforts made by the US Ex-Im Bank.

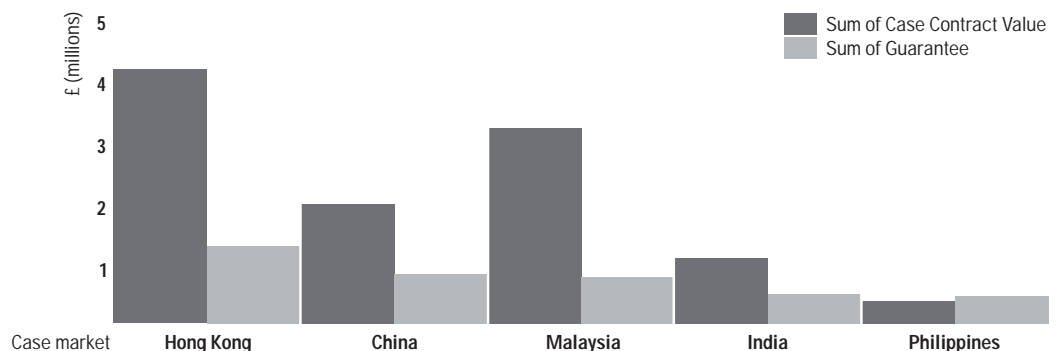
It remains the case that the ECGD does not make itself accessible to the UK renewable energy industry, which is largely concentrated in small and medium sized enterprises (SMEs). Even now with the new ECGD SME support unit, the peculiarities of renewables project financing are not taken into account. For example, differing repayment terms already exist for conventional power plants and nuclear power plants, yet no special terms exist that take account of the higher up-front costs of renewables, or their longer-term pay-back time.

Renewables projects tend to be smaller and, as such, have lower financing requirements. This means that they can also be hit by the minimum cash down-payment requirements of ECAs, or lose out because of the lack of capacity in financial intermediaries. They also suffer from the fact that they often incur higher transaction costs and greater risks.¹⁸

Moreover, there is no proactive ECGD marketing strategy to target businesses in the renewable energy sector – the Government is not going out of its way to help these businesses.

Large-scale industrial and infrastructure projects are the core of ECGD lending, and the multinational corporations, some of whom have entire departments dedicated to accessing international finance for their projects, are the ones that benefit most.

The following are the five companies in the fossil fuel energy sector who have received



the most support from the ECGD since Labour came to power:¹⁹

Company	Value
Alstom Power	£902m
Mitsui Babcock	£347m
Kier International	£49m
Allen Power Engineering	£39m
Wier Westgarth	£36m

However, according to the Royal Institute for International Affairs and Forum for the Future, even the World Bank shows signs that it is ahead of the ECGD in prioritising renewables financing: 'In 1997 the ratio of fossil fuel projects to renewables plus energy efficiency projects was 100:1. Today this ratio is down to around 16:1.'²⁰

Demand for clean energy in the developing world

Policy makers and governments in the developed world continue to justify their expenditure on, and support for, fossil fuel power projects in developing countries by claiming that there is no demand for clean, renewable technologies. Such assertions are based on a narrow reading of events within these countries, and do not take into account the impacts of tied aid, or multinational and government representatives' lobbying efforts to secure contracts for certain industries.

One example that demonstrates the way countries are dictated to in the power generation sector is the development of the 1347MW Map Ta Phut coal plant in Rayongto, Thailand. In September 1997, the Thai Government requested that the plant sponsors consider changing the fuel for the plant from coal to natural gas. It wanted to reduce the environmental effects on the area, which is already suffering from air pollution from other local industries. The application was turned down by the consortium BLCP

Power, and the financing option was limited to coal.²¹

Recognition of the role of climate change, and demand for mitigation technologies, is being voiced by developing nations. India and China have invested heavily in wind. The Brazilian Government has recently put forward a proposal for an international agreement to increase renewable sources of energy to 10% of global consumption by 2012.²² This initiative has been supported by Environment Ministers in Latin America, and is further backed up by the Latin American and Caribbean Initiative on Sustainable Development, which calls for a target of 10% renewable energy by 2010 within the regional energy mix. Numerous solarisation projects are underway across the developing world. South East Asia in particular has seen some major campaigns demanding renewables instead of coal. On the 3 July 2002, activists in Manila gathered outside the offices of the UK-French energy company Alstom, demanding that the company end its exports of fossil fuel technologies to South East Asia and invest in renewables instead.



The proposed location for a new coal power station at Bo Nok, Thailand

Three case studies from South East Asia

Thailand

Throughout the 1990s, communities in the Prachuab Khiri Khan region of Thailand have been waging a battle to defeat the proposed development of two coal plants in areas of outstanding natural beauty. The proposed sites at Bo Nok and Ban Krut have been the subjects of much contention. Both foreign and national interests have been advocating the construction of the plants, despite fierce local opposition. Communities instead demand investment in renewable solutions.

The pressure exerted on the Thai Prime Minister from both sides has been so intense that in May he announced that he would delay any decision on the projects for two years.²³ In response the companies involved in pushing for the plants to be built, Gulf Electric and Union Power, have indicated that they will sue the Thai Government for 6bn–9bn Thai Baht. This is a clear example of business interests dictating the type of energy that people in the developing world can access.

The Philippines

i. Negros Occidental – coal versus wind

The Greenpeace South East Asia office is currently involved in a campaign to bring about the cancellation of a proposed 50MW coal generating plant in Pulupandan, on the island of Negros. From the outset, the campaign has been organised by local communities who have asked for the decision on future energy developments to be made by the communities that will be affected.

The plant was given an environmental permit on 19 January 2001. The following month it was revealed that the permit had been issued illegally, prompting a massive outcry. In October 2001 the campaign succeeded in securing the cancellation of the permit by the environment secretary Heherson Alvarez. Other

papers have also been frozen while an inquiry is undertaken, and all the proposed investors apart from Edison (who accounts for 10%) have withdrawn their interest from the plant.

An independent study has been commissioned that demonstrates how the region could meet current and projected future demand for energy through a mixture of readily available renewable sources of energy – wind, solar, hydro and biomass. The people of Negros are demanding a choice when it comes to energy provision and their choice is for clean, renewable energy.

ii. The 1200MW Sual coal plant

The 1200MW coal station at Sual, located in Luzon, is the largest operating power plant in the Philippines. The total cost of the power plant was US\$1.2bn (£78bn), and it became operational in 1999. The UK ECGD provided backing amounting to £433,575,590 (with a contract value of £326,444,324), for GEC-Alstom.

The Sual coal plant uses coal imported from Indonesia, Australia and China. The coal from Indonesia has been tracked to the RTZ–BP owned coal mine, called Kaltim Prima.

There have been numerous blackouts since the Sual coal plant began operations, and residents nearby have continued to express discomfort about its existence. When interviewed, local residents have voiced concerns about the possible effect of fugitive dust from Sual's open coal stockyard. The stockyard is located on a concrete embankment by the coast, open to wind gusts and precipitation. The concern is not unfounded.

Mauban, a 440MW coal plant in the Philippines run by Quezon Power Plant (QPL), has a protective thick plastic cover over its entire coal stockyard. When questioned by Greenpeace campaigner Abigail Jabines on 14 February 2002, the Community and Press Relations officer for

the plant, Chucky Riviera, claimed it was 'for the protection of residents from the hazards of fugitive dust'.²⁴ The Sual stockyard has no such cover.

Stack emissions have also roused anger from nearby residents and neighbouring towns. The plume has been thick and constant, and conspicuous compared to other coal plants that began operating around the same time. This is despite the use of flue gas desulfurisers, electrostatic precipitators and other devices.

A positive strategy for renewables exports

ECAAs can be organised and restructured to actively support the transfer of renewable energy technologies to the developing world in the short term. They should provide maximum repayment terms for renewable energy projects that tend to have higher up-front costs and longer-term pay back times. They should commit to the training of staff, and the redirection of both their marketing and products, to take into account the peculiarities of the renewables industry. It is essential that binding criteria on environment and sustainability factors including emissions levels, be introduced. The current business principles of the ECGD are only guidelines. As well as being inadequate, they are not even binding.

Whatever restructuring is introduced, Greenpeace UK believes that this must be the first step towards the complete phasing out of all support from the ECGD for any dirty energy investments. The ECGD must be made to commit to supporting renewable energy development and greenhouse gas emissions reductions in all its activities. If the UK Government wants its commitment to a renewable future to be taken seriously, it should address the paradox between this and the activities of the ECGD. As Energy Minister Brian Wilson said on 10 January 2002:

'Renewable energy is not only about what is required in the United Kingdom. We will have a huge exporting opportunity, and I shall say more about that in the near future. If we develop the technologies and maintain our technological lead for our markets, we can create many thousands of jobs in manufacturing industries. We can also do a lot of good in the outside world by selling to developing countries the sort of technologies that they need rather than trying to flog them ones that they do not.'²⁵

Given the reliable reports, by the UN among others, on the projected impacts of climate change on the developing world, the technologies they need are clean and renewable.

Endnotes

- 1 Patricia Hewitt on 6 February 2002, in answer to a parliamentary question tabled by Tom Brake MP (LD).
- 2 Patricia Hewitt on 10 June 2002 in answer to a parliamentary question tabled by Simon Thomas MP (PC). This figure accounts for emissions from projects scaled by the proportion of finance guaranteed by the ECGD.
- 3 Greenhouse gas emissions in 1990 were 212MtC. Under the Kyoto agreement the UK must reduce its emissions from this level by 12.5%, or 26.5MtC, by 2012.
- 4 Caspar Henderson (2001) Internal report for Greenpeace UK. See also Caspar Henderson (21 February 1996) 'Empowered to Save Energy', The Financial Times.
- 5 www.ecgd.gov.uk (24 June 2002).
- 6 Information from the Cornerhouse.
- 7 Caspar Henderson (2001) Internal report for Greenpeace UK.
- 8 The seventh Conference of the Parties (COP7) of the Kyoto Protocol to the United Nations Framework Convention on Climate Change (UNFCCC) began on 29 October 2001 in Marrakech, Morocco.
- 9 Friends of the Earth (May 2002) Recommendations to the ECGD regarding Sustainable Energy and Climate Change.
- 10 Patricia Hewitt on 12 June 2002 in answer to a parliamentary question tabled by David Chaytor MP (Lab).
- 11 Press Release from US Ex-Im Bank (2 May 2002) Ex-Im Bank announces renewable energy exports advisory committee.
- 12 Beyond Business Principles, seminar in the House of Commons (23 May 2002) organised by Friends of the Earth.
- 13 www.ecgd.gov.uk (24 June 2002).
- 14 Brian Wilson, UK Energy Minister on 13 May 2002, in answer to a parliamentary question tabled by David Chaytor MP (Lab).
- 15 Brian Wilson (4 January 2002) 'Wilson Predicts 2002 will be the year of Renewables' DTI Press Release.
- 16 Caspar Henderson (2001) Internal report for Greenpeace UK.
- 17 Caspar Henderson (2001) Internal report for Greenpeace UK.
- 18 A report by the RIIA and Forum for the Future for DEFRA (2002), International Financial Institutions: Enhancing their role in promoting sustainable development
- 19 Patricia Hewitt on 6 February 2002 in answer to a parliamentary question tabled by Tom Brake MP (LD).
- 20 RIIA/Forum for the future (2002).
- 21 Map Ta Phut Power Plant, Thailand. Story featured at www.power-technology.com/projects/map/index.html. The shareholders of BLCP are Thai groups Banpu and Loxley and the UK utility PowerGen.
- 22 Inter Press Service (17 May 2002). Brazil to Take Renewable Energy Plan to Johannesburg www.CO2e.com/News/story.asp?StoryID=576
- 23 Bangkok Post (10 & 11 May 2002).
- 24 Chucky Riviera, Community and Press Relations officer, Mauban power plant (14 February 2002).
- 25 Energy Minister Brian Wilson speaking in a debate on Wave and Tidal Energy, Westminster Hall (10 January 2002).





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