Analysis: U.S. Restrictions on Public Finance for Overseas Energy Projects

Building on the commitment that the United States made in Glasgow to "end new direct public support for the international unabated fossil fuel energy sector by the end of 2022," President Biden put forward a government-wide performance standard for all energy financing overseas. These financing restrictions will support the implementation of his Executive Order on Tackling the Climate Crisis at Home and Abroad, which calls on the U.S. International Development Finance Corporation (DFC), U.S. Export-Import Bank (EXIM), and other agencies "to identify steps . . . [to] promote ending international financing of carbon-intensive fossil fuel-based energy while simultaneously advancing sustainable development and a green recovery." These restrictions will be in addition to the U.S. International Climate Finance Plan, which requires the Department of Treasury to reorient OECD export credit agencies (ECAs) financing away from carbon-intensive activities, establishes a net zero by 2040 target for DFC, and commits DFC "to bringing sustainable, reliable electricity access to 10 million people by 2025."

Focuses mainly on power plants with little guidance on midstream and upstream projects

The policy is structured around carbon intensity, which mainly applies to power plants. Existing emission performance standards are designed to restrict pollution from electricity generating units, i.e., power plants, not upstream and midstream fossil fuel projects. Meanwhile, the majority of U.S. overseas fossil fuel financing is for midstream (e.g., pipeline) and upstream (i.e., exploration and production) projects, as opposed to downstream (e.g., power plants). EXIM, DFC, and other U.S. agencies have focused much of their support on projects that extract, process, transport and import/export fossil fuels rather than for power plants.

While the policy states that "infrastructure directly related to the *production, transportation, or use of fossil fuels*, including oil and natural gas, are considered 'carbon-intensive international energy engagements,'" it then defines "carbon-intensive" using metrics (i.e., kWh) that appear to only apply to electrical generation (i.e., power plants), not production, transportation, or mid-stream like LNG. Further, the examples that the guidance provides are all power plants. Fossil fuel extraction, pipelines, mid-stream and transport infrastructure produce various kinds of unrefined and refined oil and gas projects, but not kWh.

Allows the U.S. Export-Import Bank to claim an exemption

The policy provides an escape clause that allows EXIM to claim that the policy does not apply to by exempting "trade or export finance, financing the sale of certain U.S.-made goods," which presumably all of EXIM support would fall under. In addition, the policy only appears to cover a project if it is "not part of a competitive tender or process to displace a competitor, and thus would not occur without U.S. government involvement," which EXIM could argue covers almost all, if not all, of its support. Further, proposed talking points accompanying the policy make this even clearer: "As long as there is demand for fossil energy products, technologies, and services in global markets, the U.S. government will not stand in the way of U.S. companies that are ready and able to meet those needs." EXIM will merely need to say that not funding a fossil fuel project will hurt the interest of a U.S. company and then EXIM can support the project, basically making EXIM exempt from the policy.

This is a huge mistake as EXIM is the largest source of U.S. Government financing for fossil fuel projects abroad. EXIM's existing portfolio of supported projects emits tens of millions of tons of CO_2 annually. EXIM fossil fuel financing includes nearly \$5 billion for the failed and violence-inducing Mozambique LNG project and nearly \$1 billion for the Sasan coal plant and mine in India, which has caused at least 37 project deaths. The leeway with EXIM stands in stark contrast to the United Kingdom, which ended of its support, including from its export credit agency, for overseas fossil fuel projects as of March 31, 2021. EXIM was also notably absent from the International Climate Finance Plan that President Biden released in April.

Fails to address financial intermediaries

The policy does not make any mention of financial intermediaries and refers throughout to direct financing and directly enabling. This implies that the policy does not apply to funding fossil fuels through these financial instruments. This has huge implications for the efficacy of the policy because support from development finance institutions more and more is being delivered via financial intermediaries, which often fail to disclose the name, location, and sector of higher-risk activities they finance.

This applies mainly to development finance through the U.S. International Development Finance Corporation, which fails to enforce its transparency and disclosure requirements for FIs. DFC currently supports or is considering supporting a long list of FIs. For instance, the DFC has invested \$300 million in the Three Seas Initiative Investment Fund. This fund could support a wide range of gas projects, including import terminals throughout Eastern and Central Europe. In 2020, DFC provided \$250 million for the African Finance Corporation, whose portfolio includes a coal power plant in Zambia and gas power plants in Ghana and Togo.

Allows many exceptions including for national security and energy access

The policy establishes exceptions for projects with "compelling national security, geostrategic, or development/energy access benefits and no viable lower carbon alternatives accomplish the same goals." The national security exception is a far-reaching exception that could be used to justify many projects. The types of projects that this might have still received support with such an exception are:

- Khor Mor gas field in Iraq ($250 million approved by DFC)
- Sarsang block of Kurdistan oil and gas fields in Iraq ($49 million approved by DFC)
- Freeport LNG in Texas ($50 million approved by EXIM)
- Energy Resources of Ukraine (ERU) Trading ($68 million approved by DFC)
- Three Seas Initiative ($300 million approved by DFC, under consideration by EXIM)
- Oil and gas development in Bahrain (under consideration by EXIM)
- Oil refinery in Kazakhstan (under consideration by EXIM)

The policy establishes another exemption for projects that will improve energy access. The problem with this exception is that alternatives analyses conducted for fossil fuel projects are completely inadequate – often less than a page and often failing to consider renewables. Therefore, it will be hard for the administration to determine whether a fossil fuel project is indeed necessary if it has so far failed to ensure adequate alternatives analyses. Moreover, many companies claim that their projects will improve energy access even when there are no plans to build the infrastructure necessary to provide that access. Some projects that were recently supported that could still receive support under this exception include:

- Mozambique LNG ($4.7 billion approved by EXIM)
- Rovuma LNG in Mozambique ($1.5 billion approved by DFC)
- Central Térmica de Temane in Mozambique ($250 million approved by DFC)
- CECA SL Generation gas plant in Sierra Leone ($267 million approved by DFC)

Fails to improve the accounting of emissions

The policy did not require improvements to the way agencies account for the greenhouse gas emission of the projects they support. This is a problem because agencies fail to conduct an accurate greenhouse gas accounting of their projects. Therefore, agencies will be undercounting their emissions and undermining this policy even further.

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