Friends of the Earth • Pacific Environment
Oil Change International

March 9, 2010

Bank Board of Directors
Export-Import Bank of the United States (Ex-Im Bank)
Washington, D.C.
(via email)

RE: Export-Import Bank Draft Carbon Policy Implementation Plan

To the Directors:

Pacific Environment, Friends of the Earth and Oil Change International write with concern regarding your potential approval of the U.S. Ex-Im Bank management's proposed Carbon Policy Implementation Plan (Implementation Plan). We urge you to reject approval of this Implementation Plan pending substantial revision. While we commend management for some portions of this Implementation Plan, such as the Solar Fast Track program and the recent refinements to the bank's renewable energy financing incentives, we are concerned about the following:

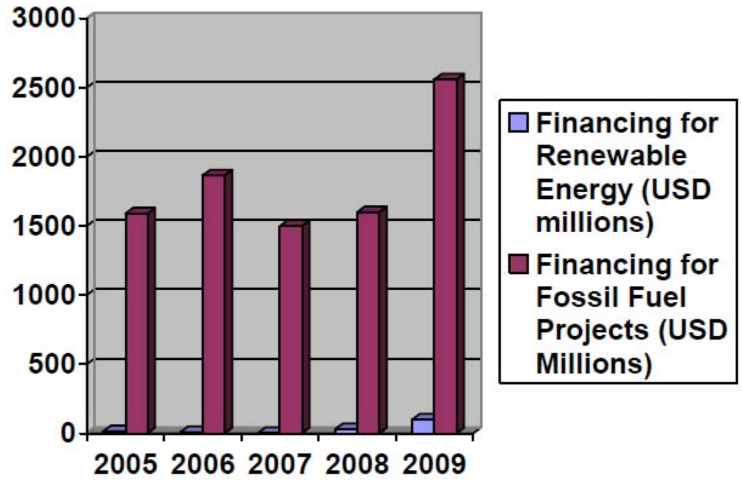
- The lack of public consultation;
- The Implementation Plan does not focus on Ex-Im Bank's mainstream portfolio;
- The Implementation Plan relies on unproven climate mitigation methods such as offsets;
- The Implementation Plan misrepresents the overall impact of Ex-Im Bank's renewable energy and energy efficiency portfolio;
- The Implementation Plan circumvents Ex-Im Bank's obligations to take a leadership role in climate change mitigation;
- The Implementation Plan falls below U.S. government and industry best practices on emissions tracking and reporting;
- The Implementation Plan's "enhanced due diligence process" applies only to a small percentage of Ex-Im Bank's portfolio;
- The Implementation Plan does not take into account other environmental and social impacts of Ex-Im Bank's financing.

Lack of public consultation: We are compelled to express our concern and disappointment about the process that Ex-Im Bank followed before submitting the proposed Implementation Plan for approval by the Board of Directors. Our organizations have spent considerable time and effort to engage the Ex-Im Bank during the generation of Carbon Policy and its Implementation Plan. Despite the fact that many months ensued after the Carbon Policy was adopted and before the Board scheduled its vote on the Implementation Plan, our organizations were provided only two days notice to attend a briefing by Ex-Im Bank management on the draft Implementation Plan, and we were provided a copy of the draft policy only one day before the briefing, precluding our ability to digest and provide informed comments to Ex-Im Bank management, and preventing some organizations that attended the briefing from engaging Directors before the proposed board vote. We are unsure which, if any, of the comments and concerns we expressed to management have been conveyed to you.

The Implementation Plan does not focus on Ex-Im Bank's mainstream portfolio of fossil fuel projects: The Implementation Plan includes important new project due diligence and board approval / rejection processes primarily for coal-based projects—which Ex-Im Bank scarcely finances at present. Meanwhile, the Implementation Plan fails to do anything to curb fossil fuel emissions from oil and gas-related transactions, which Ex-Im Bank finances in increasingly large volumes. The Implementation Plan includes new commitments to renewable energy / energy efficiency projects, but these new commitments amount to less than 4% of Ex-Im Bank's fossil fuel related transactions. Ironically, both Ex-Im Bank's Carbon Policy and its Implementation Plan allow for a large net growth in greenhouse gas emissions across the Bank's portfolio. Moreover, the Carbon Policy and Implementation Plan allow even the worst coal and other carbon-intensive projects to proceed.

The Implementation Plan relies on unproven climate mitigation methods: The Implementation Plan would then allow some of the most carbon-intensive coal and other projects to proceed so long as they include carbon capture and storage and offset schemes. Each of these methods remains unproved as an effective way to mitigate global greenhouse gas emissions. Carbon capture and storage has not proven to be viable. Offsets are plagued with well-known problems relating to verifiability, additionality, permanence, and other flaws (see attached report). In addition, offsets have the effect of undercutting other strategies to reduce carbon emissions, such as adopting or enforcing environmental laws. Requiring offsets for subcritical coal fired power plants would have the effect of encouraging these plants to move forward, creating significant environmental and health impacts for local communities from carbon co-pollutants. Each of these methods also diverts resources away from methods of climate mitigation that are more sound, such as setting targets and timetables for emission reductions across Ex-Im Bank's portfolio.

The Implementation Plan misrepresents the overall impact of Ex-Im Bank's renewable energy and energy efficiency portfolio: The Implementation Plan includes innovative and supportable new commitments for renewable energy / energy efficiency projects, including options for exposure fees, timing of Commercial Interest Reference Rate, fast-track guidelines for solar deals, and an expanded list of energy efficiency exports. It should be noted, however, that the Implementation Plan commits to promote only a $250 million "target" for renewable energy projects, yet this "target" is actually a requirement of a climate change lawsuit settlement agreement between Ex-Im and Friends of the Earth, Greenpeace, et. al., and does not represent new commitments by Ex-Im Bank. This "target" also represents a very small percentage of the billions of dollars of financing that Ex-Im Bank invests in fossil fuel projects. Ex-Im Bank's continued massive financing of fossil fuel projects (oil and gas) cancels out any emission reductions that might have been gained through the renewable energy and energy efficiency efforts (see graph below).



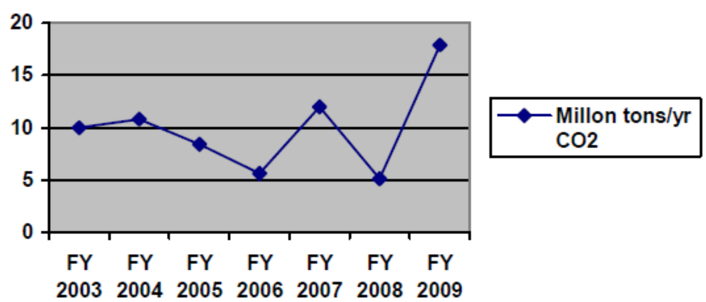
(Source: http://www.exim.gov/about/reports/ar/index.cfm)

The Implementation Plan undercuts Ex-Im Bank's obligations to take a leadership role in climate change mitigation: In 2009, the Group of Twenty (G20) decided to "phase out and rationalize over the medium term inefficient fossil fuel subsidies while providing targeted (financial) support for the poorest." As a leading provider of producer subsidies, Ex-Im Bank's *rapidly expanding* financing of fossil fuel projects circumvents the G20's mandate, and sends a message to smaller OECD countries that the United States is unwilling to lead in the phase out of these production subsidies. This also sends a message to developing countries, which typically have consumption subsidies, that the burden of fulfillment of the G20 mandate will fall disproportionately on them.

The 2009 lawsuit settlement requires Ex-Im Bank to take a leadership role in climate change issues at the OECD. In compliance with the settlement, the Carbon Policy Implementation Plan includes important commitments to advocate and negotiate at the multilateral level to promote renewable energy and energy efficiency, to expand due diligence practices and, where appropriate, forge an OECD agreement to restrict export credit agency financing for high carbon intensity projects. However, we are concerned that Ex-Im Bank's refusal to enact a Carbon Policy and Implementation Plan that curbs the agency's financed portfolio of greenhouse gas emissions will undercut the credibility of Ex-Im Bank's advocacy for adequate climate change policies abroad.

The Implementation Plan falls below U.S. government and industry best practices on emissions tracking and reporting: The Implementation Plan continues to commit to tracking and reporting of direct greenhouse gas emissions for Category A projects, and reduces the threshold of projects assessed from 100,000 to 50,000 tonnes of CO_2 per year. While this is an improvement on previous Ex-Im Bank practice, it continues to remain twice the level of the U.S. Environmental Protection Agency threshold of 25,000 tonnes of CO_2 per year. Meanwhile, unlike many U.S. industry leaders, Ex-Im Bank does not track and report indirect lifecycle emissions of projects it supports. For example, when Ex-Im Bank finances the extraction and transport phases of an oil and gas project, this also enables the combustion of oil and gas to take place, yet Ex-Im Bank does not account for the ultimate emission consequences of its financing. This narrow approach contradicts recommendations for tracking and monitoring of greenhouse gas emissions by specialist organizations such as the World Resources Institute.

The Implementation Plan's "enhanced due diligence process" does not apply to virtually all of Ex-Im Bank's fossil fuel project portfolio: The Implementation Plan includes new project due diligence and board approval / rejection processes, including requirements for alternatives analysis, best appropriate technology, and the potential increase fees and term reduction. However, these are limited to what Ex-Im Bank defines as "high carbon intensity projects," primarily for coal-based projects—which as mentioned above, Ex-Im Bank rarely finances at present. Meanwhile, the vast majority of Ex-Im Bank's skyrocketing portfolio of project fossil fuel emissions is not addressed by this provision. The following graph demonstrates the rapid growth of Ex-Im Bank's portfolio of direct greenhouse gas emissions which are not addressed by the Implementation Plan.



(Source: Ex-Im Bank Annual Reports, available at http://www.exim.gov/about/reports/ar/index.cfm

The Implementation Plan does not take into account other environmental and social impacts of Ex-Im Bank's financing: Increasingly, climate negotiators acknowledge that the global response to climate change must be designed in such a way that it does not create additional environmental and social harms. For many years, our organizations have also raised the concern that Ex-Im Bank financing often undercuts U.S. development goals in the countries where these projects are located by creating environmental, social and economic harm. Many of these projects are designed exclusively to export hydrocarbons from developing countries, which does not improve access to energy within the countries. These projects are often associated with corruption, as is the case in the Ex-Im Bank-financed Nigeria Liquid Natural Gas Project. These projects also lead to a range of other economic and social problems, such as hyper-inflation in related domestic industries, increasing housing and food costs in areas that host these projects, and increased violence between and within countries as competition over the extractive resources increases. Examples of Ex-Im Bank-financed projects with these kinds of negative development impacts include the Chad-Cameroon pipeline, the Baku-T'blisi-Ceyhan pipeline, and the Papua New Guinea Liquefied Natural Gas project (PNG LNG).

Papua New Guinea LNG project: The PNG LNG project deserves a special mention at this moment. At the very time when the Obama Administration travelled to Copenhagen in an effort to persuade other countries that the United States is serious about climate change, the U.S. Ex-Im Bank announced that it has approved a record-breaking $3 billion in financing for this ExxonMobil-led fossil fuel scheme.[1] The project includes a 284 km (176.5 mile) long on-shore pipeline which will cross tribal lands and cut a path clearing 1,055 hectares (2,607 acres) of world-class biodiverse primary tropical forests, transect 26 major water crossings, and cross the Kutubu Wildlife Management Area.[2]

PNG LNG is by far the largest foreign investment in the small island's economic history. Corruption is probable, given that the country is at the highly corrupt end of Transparency International's country corruption perception index.[3,] Project sponsors have claimed that the project will create a large number of domestic jobs, yet Prime Minister Michael T. Somore recently acknowledged that the country is not well prepared for the project, stating, "We have not trained our people for the projects which will require between 8,000 and 10,000 workers."[4] A sharp influx of expatriate mostly male workers seems certain to increase conflict in the project area. Project sponsors tout the scheme's Benefit Sharing Agreement as evidence of revenue sharing with land owners, however Transparency International PNG publicly announced their "grave concern" about the transparency of these funds after the group's invitation to serve as an independent observer at the fund's negotiating forum was unexpectedly withdrawn.[5] There are increasing conflicts about land ownership and project benefits in the area which are enflaming existing disputes among historically rival tribes and between tribes and project sponsors and the government.

Alarmingly, initial construction work has just recently begun and already there is a surge of deadly violence reportedly associated with the project. In January and February 2010, several conflicts erupted between rival clans reportedly connected with disputes over land rights and benefits connected with the project, leaving 16 dead. In early February, police were reported to have clashed with over a hundred heavily armed villagers while key

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[1] Terrence Samuel, Its Not Just About Copenhagen, The American Prospect, December 11, 2009, available at http://www.prospect.org/cs/articles?article=its_not_just_about_copenhagen

[2] See PNG LNG environmental and social impact assessment, available at Ex-Im Bank Engineering and Environment Division.

[3] See Transparency International Corruption Perception Index 2009, available at http://www.transparency.org/policy_research/surveys_indices/cpi/2009

[4] Rowan Callick, Papua New Guinea Now Gravely Ill with the Disease of Corruption, The Australian, December 26, 2009, available at http://www.theaustralian.com.au/news/opinion/png-now-gravely-ill-with-the-disease-of-corruption/story-e6frg6zo-1225813660029

[5] See Transparency International PNG press release, available at http://www.transparency.org/news_room/latest_news/press_releases_nc/2009/2009_05_22_png_independent_observers

roads to the project site were blockaded.[6] ExxonMobil has previously denied any connection between the violence and the project, but in early February the company suspended work in several project areas based on security concerns.[7] Dame Carol Kidu, PNG Minister for Community Development acknowledged that problems and conflicts between some PNG tribes existed before the project, but stated that, "…suddenly with this LNG project and all of the tensions and jealousies over the land ownership and all these things, it blew up into a tribal war, a village war; inter-village war."[8] It is feared that this is the opening salvo of a much longer series of violent conflicts during the project's multi-year construction phase and beyond.

Despite the fact that environmental organizations warned Ex-Im Bank staff during the project's expedited due diligence process, Ex-Im Bank's Board approved the project. Despite commitments by Ex-Im Bank's Engineering and Environment Division to respond to these concerns in writing, no response was received, and we are unaware of what, if any, of these concerns were conveyed to the Board.

Conclusion: Environmental organizations are deeply concerned about Ex-Im Bank's Carbon Policy Implementation Plan. While we commend Ex-Im Bank management for some provisions of the policy, such as those for renewable energy and energy efficiency, on the whole this Implementation Plan fails to curb skyrocketing carbon emissions from Ex-Im Bank's mainstream portfolio of fossil fuel projects by applying new due diligence and approval measures virtually exclusively to coal power projects, which Ex-Im Bank does not finance at present. The Implementation Plan mitigation measures rely on unproven and problem-ridden methods for coal projects such as carbon capture and offsets. Ex-Im Bank's commitment to provide international leadership for export credit agency climate change policies is undercut by Ex-Im Bank's unwillingness to curb its own fossil fuel emissions. Ex-Im Bank's support for renewable energy is laudable, yet is cancelled out by its overwhelmingly larger volume of fossil fuel financing. Ex-Im Bank's unwillingness to adopt an effective Carbon Policy also results in the perpetuation of other negative environmental and social impacts of fossil fuel projects. Environmental organizations are also concerned about the lack of public consultation in the development of the Implementation Plan. We urge you to reject approval of this Implementation Plan pending substantial revision.

Please feel free to contact us with questions, comments, or requests for additional information. Contact Doug Norlen, Pacific Environment, 202.465.1650, Michelle Chan, Friends of the Earth, 415,.544.0790, Steve Kretzmann, Oil Change International, 202.4797. 1033.

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[6] Clan Killings at Papua New Guinea Gasfields, The Australian, February 4, 2010, available at http://www.theaustralian.com.au/news/world/clan-killings-at-papua-new-guinea-gasfields/story-e6frg6so-1225826505198

[7] ExxonMobil Suspends Work in Several Areas of PNG LNG Project, Radio New Zealand, February 9, 2009, available at http://www.rnzi.com/pages/news.php?op=read&id=51827

[8] Tribal Fighting in PNG Because of LNG Project, Says Kidu, Radio New Zealand, February 11, 2010, available at http://www.rnzi.com/pages/news.php?op=read&id=51892