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# Flying Low

**The UK Export Credit  
Guarantee Department and  
Climate Change**



## **Executive Summary**

The UK Export Credit Guarantee Department (ECGD) is a UK Government department which provides government-backed loans, guarantees, credits and insurance to private corporations from the UK to do business abroad, particularly in the financially and politically risky developing world. The remit of the ECGD is reactive in that it only supports business projects which approach the department for support.

The ECGD provided over £2 billion in financing last year, primarily to support the supply of aircraft and hydrocarbon extraction. The ECGD currently has no clear recognition of its impacts on climate change or a strategy for reducing them.

Over the last five years, the ECGD has provided £3.3 billion in finance for the supply of 294 aircraft. This is the equivalent of BA's entire fleet (291 aircraft) being added to the global airline industry with the UK Government's support every five years.

The ECGD has even stated that the high oil price and profits means that there is even greater opportunity to subsidise the sector. It is currently considering whether to increase its carbon footprint by supporting Shell's \$20 billion Sakhalin II project in Russia. The 1.6 billion tonnes of CO<sub>2</sub> emissions from the lifetime oil and gas production of this development are equivalent to 3 years of UK national emissions.

The ECGD is obliged to take into account the UK Government's international policies, yet climate change is not referenced in any of its strategies, risk assessments or finance decisions. The current organisation is not able to adequately take into account the UK Government's public position on climate change.

It is clear that the ECGD's position is not coherent with the policies of other Government departments which have recognised the impacts of climate change on the environment and on poverty alleviation objectives.

The ECGD is also lagging behind the corporate sector in addressing the issue. Shell and BP already report direct and indirect emissions, whilst Virgin has announced a fund to use travel sector profits to develop alternative fuels. The ECGD needs to expand the scope of its environmental assessments to consider the impact of the sectors it is supporting and the types of products they supply.

There is currently a lack of transparency with regard to the levels of greenhouse gas emissions the ECGD is responsible for. Limited details are provided for some projects, and the ECGD currently has no public reporting of the greenhouse gas emissions from all of its interests. As a result WWF has had to calculate contributions where possible.

WWF believes the ECGD should report clearly and publicly on the emissions it provides financial support for and the indirect emissions from the infrastructure and equipment it supports. Until the ECGD monitors its contribution, it cannot set targets or manage reduction.

The ECGD is not taking into account the social cost of its activities. The Stern Review estimates the social cost of 1 tonne of CO<sub>2</sub> to be \$85. The social cost of lifetime emissions from the 86 aircraft financed by the ECGD in 2005 is £3.8 billion; this is greater than the £1 billion of cover that the ECGD provided to the aviation sector in 2005. As a result the ECGD is having a negative contribution to society.

It is time for the ECGD to phase out support for fossil fuel projects which reduces the costs and risks of oil companies. Indeed, the Stern Review sets out the imperative to create a flow of investment to low carbon futures. If ECGD cannot respond to this challenge, then it needs to change urgently.

The ECGD is part of a larger group of export credit agencies, who provide more finance support each year than all the multilateral development banks put together. ECGD should set an example, and lead a shift towards low carbon finance, both for its peers and for commercial banks.

The Stern Review has concluded that 'climate change is the greatest market failure ever seen'; WWF believes ECGD is part of that failure. The Stern Review has set out the challenges, with a key aspect being how to correct the carbon externalities through public finance structures. As long as ECGD sees the cash-rich oil sector as an opportunity, it will be part of the problem rather than part of the solution.

## **Recommendations**

WWF, therefore, is calling on the Government and the Secretary of State for the ECGD to urgently review the mandate of the ECGD with regard to climate change. This review must be coherent with the policies in DEFRA and DFID on climate change. Both DEFRA and DFID must take a strong position on the reform of the ECGD to ensure that it is fully in line with Government policy.

Specifically:

- the ECGD should ensure clear, transparent and public reporting of the greenhouse gas emissions derived from the projects it supports; and
- the Government should amend the primary legislation that sets the remit of the ECGD and require it to phase out its support for carbon intensive sectors.

ECGD's inability to consider climate change issues is an unacceptable situation. The department needs to take urgent action to rectify this. The ECGD is falling behind in terms of risk management, transparency and contributions to reducing greenhouse gas emissions. The ECGD is in direct contradiction of the UK Government position on climate change agreed across other departments. The Stern Review is a timely intervention which should result in fundamental changes in Government interactions with the financing of carbon intensive activities.

If the ECGD continues to support carbon intensive investments such as Sakhalin II, it will be consciously breaching its requirement to be in accord with UK Government objectives. The ECGD is currently an embarrassment to the UK because of its poor record on climate change, and must not be allowed to fly low beneath the radar of policies to reduce carbon emissions.



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## 1. Introduction

The UK Government has made many welcome statements in recent years regarding climate change. Recently this took the form of the UK Prime Minister putting climate change on the agenda whilst the UK held the EU and G8 presidencies. In his words:

*“Climate change is probably the greatest long-term challenge facing the human race. That is why I have made it a top priority for this government, at home and internationally.”<sup>i</sup>*

Yet there is still a lack of coherence across Government departments, which exacerbates efforts to deliver on these commitments. The UK Export Credit Guarantee Department (ECGD) lags even further behind, not even referencing the issue of combating climate change in its policies or procedures, let alone translating it into action. ECGD is currently not set up to make any positive contribution to this agenda. Indeed the activities of the ECGD are contributing to greenhouse gas emissions, in direct contradiction of the objectives of tackling climate change and poverty alleviation of other departments.

It is widely recognised that developing countries exposed to sudden inflows of revenue from extractive industries can see little benefit from this economic activity if effective governance measures are not in place. In particular this ‘resource curse’ means that the poorest sections of these societies often find themselves even more disadvantaged.<sup>ii</sup> This lack of benefits is compounded by the fact that the poor are expected to bear the brunt of the impacts of climate change. The reality is brought home by reports such as the ‘Up in Smoke’ publications which capture the threats from global warming impacts to human development.<sup>iii</sup>

As a result of climate change exacerbating poverty, global commitments such as the Millennium Development Goals will not be achieved without reducing greenhouse gas emissions. This is confirmed in Her Majesty’s Government’s 2006 White Paper on International Development, ‘eliminating world poverty: making governance work for the poor’:

*“Climate change poses the most serious long term threat to development and the Millennium Development Goals.”<sup>iv</sup>*

The UK Government is also a signatory to the UN Convention on Biodiversity, which aims to reduce the rate of loss of biodiversity. Climate change is one of the main threats to achieving the goals to prevent loss of species. A study completed in 2006 suggested that:

*“a quarter of the world’s species would be committed to extinction by 2050 as a result of global warming”<sup>v</sup>*

The imperative to take action for the world’s poor and biodiversity is urgent. There is no excuse for subsidising or supporting activities that worsen the situation.

## 2. What is the ECGD?

Today, export credit agencies (ECAs) are collectively among the largest sources of public financial support for foreign corporate involvement in industrial projects in the developing world, (US\$ 55 billion per annum for project finance). For example, ECAs are estimated to support twice the amount of oil, gas and mining projects as all Multilateral Development Banks combined. Half of all new greenhouse gas-emitting industrial projects in developing countries have some form of ECA support.

The ECGD is the UK's ECA, which has the following aim:

*'To benefit the UK economy by helping exporters of UK goods and services to win business, and UK firms to invest overseas, by providing guarantees, insurance and reinsurance against loss, **taking into account the Government's international policies.**'<sup>vi</sup>*

This is qualified in the objectives of the ECGD which include:

- To operate in accordance with its Business Principles.<sup>vii</sup>
- To ensure its activities accord with other Government objectives, including those on sustainable development, human rights, good governance and trade.

ECAs are public agencies that provide government-backed loans, guarantees, credits and insurance to private corporations from their home country to do business abroad, particularly in the financially and politically risky developing world. The ECGD participates in the OECD Trade Directorate's Arrangement on Officially Supported Export Credits, which provides guiding principles for ECAs. ECGD has a role to play in improving consideration of climate change by all ECAs through this body.

The UK ECGD is the oldest export credit agency in the world, established in 1919. Its original mandate was to support British exports, especially those to Russia, because private banks would not do so. It is clear that the world has changed, and so should the mandate and activities of the ECGD, to reflect today's challenges, such as climate change. The current remit of the ECGD is reactive as businesses must approach the ECGD before it considers offering support.

The ECGD supported finance totalling £2.23 billion last year. It has had interests of £14 billion in the last 5 years. This is almost as much as the Department for International Development (DFID) budget for the last 5 years (£17.5 billion). The ECGD, therefore, is a significant department which must be transparent.

The ECGD reports to two Ministers of Her Majesty's Government:

- the Secretary of State for the ECGD (who is currently also the DTI Secretary of State); and
- the Minister of State for Trade, Investment and Foreign Affairs

Importantly, discussions on controversial and large projects are had at cabinet level, so there is direct political responsibility for decisions on some of these projects. At present the ECGD appears to have been forgotten in the cross-departmental drive towards addressing climate change.

### 3. What has the ECGD said to date on climate change?

The ECGD has various internal structures in place covering risk assessment and compliance with its business principles, all of which report to the Management Board. In the 2005/06 annual report, the ECGD makes no reference to the risk of climate change to its business, or how it is taking the issue into account in future strategy. This position is falling behind those of commercial banks and insurers who have recognised the issue (e.g. Allianz & WWF research into risks and opportunities from climate change for the finance sector).

The ECGD's case impact analysis process is the way in which the ECGD considers environmental and social impacts, including impacts "on the global environment". The process applies purely to the 'civil' (private sector) projects which seek finance; defence and aerospace finance is treated separately. The associated questionnaire for potential clients requests figures on annual consumption or extraction of resources, including coal, oil, gas, forest products and electrical power. It also requests quantification of the annual production of greenhouse gases. So this data is collected, but not published. In relation to greenhouse gases, the guidance notes to these sections state:

*"ECGD discourages release of greenhouse gases and encourages the use of renewable power sources. Through asking its customers to provide quantified information about this, ECGD ensures that its customers are fully aware of the long-term sustainability of their business and its impact on the global environment."*

This statement suggests that the ECGD takes a passive role on this issue and leaves it to its clients to consider greenhouse gas emissions. But by trying to distance itself from the issue, the ECGD is doing the opposite of its opening sentence. Many of the projects it supports actively encourage the release of greenhouse gases. The ECGD needs to face up to its responsibilities to consider the climate change implications of its activities.

Defence and Aerospace business has to meet international criteria for noise and emissions. However, there is no consideration of the implications of supporting the supply of aircraft around the world on the environment. Nor is there any espousal of how the relationship between conflict and environmental degradation or poverty is addressed.

The ECGD is known to "consult" other Government departments, but it is not fully explained how this has influenced policy or finance decisions. In the past the ECGD has said it relies on the Department for Environment, Food and Rural Affairs (DEFRA) to look at such issues. But the current decision-making process does not allow for any climate change concerns to influence project support decisions.

Finally, the ECGD has been active in developing the OECD Common Approaches for Export Credit Agencies which have an objective to:

*"Promote coherence between policies regarding officially supported export credits and policies for the protection of the environment, including relevant international agreements and conventions, thereby contributing towards sustainable development."*

#### 4. UK Government position on climate change

The ECGD identifies other Government departments which have responsibilities as part of the Case Impact Analysis Process:

*“DEFRA, DFID, DTI (including UK Trade & Investment), FCO and MOD are consulted on potentially sensitive cases. They are asked to provide input on the areas of Government policy for which they have responsibility.”*

So let's consider what these departments say publicly on climate change.

Hilary Benn MP, Secretary of State for International Development made a series of speeches running up to the launch of DFID's White Paper in 2006, which touched on global challenges and the need for greater coherence to tackle them. One speech was focused on climate change:<sup>viii</sup>

*“DFID's interest in all of this is that climate change is a problem caused by the rich countries which is having the greatest impact on poor countries.”*

The ECGD currently embodies this problem, in that it supports projects to enhance UK profits but which have little regard for the bigger picture – the impact of climate change on the poor. Hydrocarbon infrastructure projects, for example, are primarily designed to fuel the developed world's demand for fossil fuels, by exporting natural resources, to western markets.

Margaret Beckett MP, the former Secretary of State for Environment, Food and Rural Affairs, made the following statement in March 2006:

*“At international level, we will maintain our leadership role, and build on progress achieved through the G8 Summit in Gleneagles, the European Union and the Montreal Climate Change Conference. Our aim is to secure agreement to the action and long-term goal needed to establish an effective future international regime to tackle climate change. As part of this, in partnership with the European Union, we will enhance our efforts to help India, China and other developing countries evolve as low carbon economies.”<sup>ix</sup>*

If the UK is indeed to take a lead then it must act to rectify the inconsistency of the ECGD providing support for fossil fuel based projects.

The Foreign and Commonwealth Office (FCO) has made 'Energy Security and Climate Change' an international priority:

*“The lack of access to affordable energy is a constraint on economic development. The promotion of access to modern, clean, efficient energy services plays a key role in helping to achieve the Millennium Development goals.*

##### **Key Objective**

- *Improved access to affordable and reliable energy services, in line with World Summit on Sustainable Development commitments.”<sup>x</sup>*

The UK Government is committed to the need to stay below a two degree rise in global average temperature, which was reaffirmed in the UK Energy Review published by the DTI in July 2006.<sup>xi</sup> It is completely contrary to this objective to continue to blindly subsidise activities exacerbating the problem through the ECGD.

In 2003 the ECGD renewed its commitment to keep sustainable development at the heart of its work in supporting UK exporters and investors trading in world markets. The chief executive commented:

*"ECAs including ECGD recognise that sustainable development goes hand in hand with our business. Projects that take full account of environmental and social issues in their design and operation are more likely to succeed. A green project makes good business sense for ECAs as they are more likely to meet their financial targets."*<sup>xii</sup>

The reactive nature of the ECGD's business means that it is not sending any signals to the market that it is looking for low carbon investments. The ECGD has made available a pot of £50 million per annum for renewables. However, this pales in comparison to the £billions of carbon intensive projects it supports each year. The ECGD provided £2.23 billion in finance in 2005-6. This means that if the full £50 million facility was used it would represent 2.25% of the annual expenditure. The ECGD's financial products are not attractive to renewable energy companies, as they are charging a premium to cover political risk. In practice, due to the remit of the ECGD in only helping businesses that approach the department, it currently does not support renewables.

Ultimately, the passive approach of the ECGD means it supports the hydrocarbon and aviation sectors, rather than providing incentives to reduce carbon. The ECGD is, therefore, a long way from making a positive overall contribution to tackling climate change. If it cannot adapt to the challenges of the 21<sup>st</sup> Century, perhaps it should not exist.

The Stern Review was set up by HM Treasury to investigate the Economics of Climate Change. The Stern Review has concluded that 'climate change is the greatest market failure ever seen'; WWF believes ECGD is part of that failure. The Stern Review has set out the challenges, with a key aspect being how to correct the carbon externalities through public finance structures:

*"Policies and institutions are needed to shift future patterns of energy consumption and production, to promote the development and deployment of new technologies by public and private sectors, and to change individual and societal attitudes. A strong private sector response requires public policies that give clear, long-term and credible incentives."*<sup>xiii</sup>

It is particularly important to instigate these shifts in investment strategy if future targets are to be met. Many infrastructure projects result in tying in consumers to carbon intensive sources of energy for decades. Furthermore, export credit agencies often leverage further investment from commercial banks. At present ECGD is effectively a subsidy for fossil fuels, reducing the risk for this sector and making capital available. Other financial institutions should be aware that ECGD approval does not mean climate change impacts have been addressed.

## 5. Transparency

The UK Export Credit Agency (ECA) is by no means alone in its field. There is pressure on other agencies to do more on climate change. For example the German ECA was successfully taken to court to require disclosure of its greenhouse gas emissions.<sup>xiv</sup> The court ruled that European Environmental Information laws applied to the agency, and that the information must be provided. However, it should not be necessary to have to resort to official requests to gain access to this information. WWF expects the ECGD to publicly disclose this information.

On previous projects financed by the ECGD, such as the Baku-Tblisi-Ceyhan (BTC) pipeline, NGOs have challenged the decision on climate change grounds. Yet it appears the ECGD and the Government is not willing to fully assess the consequences of its actions. The ECGD were aware of the emissions associated with the construction of the pipeline, as well as the use of the products it was enabling to get to markets, but the implications of this for its decision are not disclosed. The Business Principles Unit's brief analysis of the climate change issues of the BTC pipeline has not been released despite requests under Freedom of Information Regulations. The fully redacted section can be found in the Appendix inside the back cover of this report.

The key question, therefore is how much greenhouse gas emissions is the ECGD responsible for supporting? The ECGD does not report the emissions associated with the projects they support. This is despite DEFRA issuing reporting guidelines, which state:<sup>xv</sup>

*The Government expects businesses to report on their significant environmental impacts whether they are direct or indirect.*

*Businesses are likely to derive benefit from positively influencing their indirect environmental impacts for at least three reasons:*

- *The issues may be significant in terms of the organisation's overall environmental impact;*
- *Organisations need to be able to demonstrate that reducing their direct impacts is not at the expense of increased impacts elsewhere; and,*
- *Some stakeholders may deem them accountable for supply-chain impacts, particularly where they have significant purchasing power in the marketplace.*

It should also be noted that UK multinationals such as BP and Shell report on the global emissions associated with the use of their products as well as those direct from their operations. There are also several international reporting guidelines available, such as the latest Global Reporting Initiative G3 system.<sup>xvi</sup> WWF expects the UK ECGD to set an example and a positive direction, both for its peers and UK companies but at present it is lagging behind. It is also widely accepted that the first step to managing performance is to measure it.

WWF believes that the ECGD should clearly and publicly report on the direct and indirect impacts, including greenhouse gas emissions, resulting from the projects it supports, to indicate the carbon intensity of its interests. As this information is currently not publicly available, we have therefore had to estimate the figures, as follows.

## 6. The ECGD's Greenhouse Gas Contribution

### Aviation

Greenhouse gas emissions from flying are the fastest growing proportion of global anthropogenic emissions. Research has identified that non-CO<sub>2</sub> (carbon dioxide) related impacts from NO<sub>x</sub> (nitrous oxides), contrails and cirrus clouds could amplify the CO<sub>2</sub> contribution by a factor of three.<sup>xvii</sup> There is currently no international agreement to curb aviation emissions, which will undermine efforts to tackle other sources, if left unfettered. Yet at present the UK ECGD is happy to support the expansion of airline fleets, without factoring in and publicly reporting the cost of carbon emissions.

In fact the ECGD's activities in this sector are not even covered by the environmental screening in place for other civil sectors. This is despite a recommendation from the Environmental Audit Committee in 2003 that "*ECGD bring all aerospace-related applications within its impact screening process*".<sup>xviii</sup> The ECGD merely requires compliance with international noise and emissions criteria. If the ECGD is to take a lead on sustainable development, it must require more than regulatory compliance.

Last year the ECGD financed 86 Airbus aircraft. Based on BA's fleet,<sup>xix</sup> the average aircraft emits 0.05 million tonnes of CO<sub>2</sub> per year. Assuming the aircraft are in service for 20 years, this equates to at least 1 million tonnes CO<sub>2</sub> per aircraft over its lifetime. The ECGD is therefore supporting 86 million tonnes of CO<sub>2</sub> being emitted. It is worrying to note that the ECGD has increased the number of aircraft supported, from 54 and 50 aircraft in the previous two years. This is reflected in the proportions of business in the various sectors, with aerospace now accounting for nearly half of the ECGD's project finance. The ECGD was involved with 23% of the 378 aircraft sold by Airbus in 2005.<sup>xx</sup>

ECGD's expenditure by sector for the last five years.

Year	2005/06	04/05	03/04	02/03	01/02
Airbus	44%	31%	17%	14%	21%
Other Aerospace	3%	1%	6%	1%	1%
Civil	30%	30%	38%	35%	47%
Defence	23%	38%	39%	50%	31%
	100%	100%	100%	100%	100%

Over the last five years, the ECGD has provided £3.3 billion in support for the supply of 294 aircraft.<sup>xxi</sup> This is the equivalent of BA's entire fleet (291 aircraft) being added to the global airline industry with the UK Government's support every five years.

### Carbon Intensive Investments

In 2002, the Government responded to Parliamentary questions that CO<sub>2</sub> emissions 'directly attributable to the ECGD's participation' were equivalent to 13.3 million tonnes of carbon (MtC) per year, (calculated as the proportional share of its interests in the energy industry).

The ECGD has been active in a number of sectors with high carbon impacts over the last five years. This includes the exploration, production and transport of oil and gas; metal processing plants which are highly energy intensive; electricity generation; and infrastructure development.

In 2003, the ECGD agreed to finance the Baku-Tbilisi-Ceyhan pipeline which can supply 1 million barrels of oil per day. When this oil is used this will produce 160 million tonnes of CO<sub>2</sub> each year.

The ECGD has also financed a number of oil and gas facilities and associated equipment in Iran, Brazil, Mexico, Nigeria, Azerbaijan, Kazakhstan, Algeria and Turkey.

In recent years, the ECGD has financed energy intensive sectors such as steel making in India and Turkey, a blast furnace in Brazil and aluminium manufacture in Croatia. The ECGD supports transport infrastructure - the construction of roads and bridges.

The ECGD has been active in the power sector, but the minimal details of the investments do not indicate the type of generation taking place. For example the ECGD has backed Alstom for exports to two nuclear power stations (Shin Kori & Shin Wolsong) in the Republic of Korea. Further details of the investments are not provided. Some investments may actually improve efficiency or reduce emissions, but there is currently no way of crediting this with the limited information available.

The Sakhalin II project currently seeking support from the ECGD will not improve the ECGD's record, (see next page for more details). Rather than sending the ECGD in the right direction at least, the project will expand the carbon footprint of the Government. With the ECGD supporting the BTC pipeline and expanding its support for the airline industry, alongside carbon intensive industry, it is clear that ECGD is increasing its contribution to global warming rather than decreasing it. If ECGD were to support Sakhalin, it would be sending the opposite signal to that of the Stern Review, by promoting the perpetuation of reliance on fossil fuels around the world.

### **Carbon Costs**

The Stern Review has calculated the social cost of CO<sub>2</sub> to be \$85 per tonne.<sup>xxii</sup> Assuming the 86 aircraft financed by ECGD in 2005 produce 1 million tonnes CO<sub>2</sub> each over their lifetime, this would constitute a social cost of £3.8 billion. (This is a conservative estimate given the multiplier effect of high-level aviation emissions.) This is greater than the £1 billion ECGD backing for the aircraft contracts. As a result the ECGD is having a negative contribution to society.

If the ECGD were to factor in the costs of the climate change impacts resulting from its activities, it would demonstrate the negative impact of its portfolio. The ECGD's involvement in hydrocarbons reduces the risks and costs to this sector, and allows them to externalise their costs. This reinforces the strong position of oil multinationals, rather than giving a level playing field for energy options, or even better, stimulating cleaner alternatives.

## Case study – Sakhalin II

To demonstrate the relevance of this to decisions currently being considered by the ECGD, it is useful to consider the Sakhalin II Phase 2 development in Russia, which has applied for support from the ECGD.

The Sakhalin II Phase 2 offshore oil and gas project is a proposed US\$20 billion project on Russia's Pacific Coast. The project is being led by Shell, as the major shareholder and operator of the Sakhalin Energy Investment Company, (SEIC), with its partners Mitsui and Mitsubishi. It proposes the construction of a new oil and gas platform, offshore pipelines, onshore pipelines carrying oil and gas the 800 km length of Sakhalin island, and the construction of a liquid natural gas (LNG) production plant and LNG terminal at the south end of the island. Shell is asking the European Bank for Reconstruction and Development (EBRD), US Export-Import Bank, the UK Export Credit Guarantee Department and the Japan Bank for International Co-operation (JBIC) for loans for Sakhalin II Phase 2. The project is now 80% complete, yet Shell is still asking for public support to supplement its record profits of \$23 billion in 2005.

An analysis of the climate change issues in relation to UK Government policy and commitments formed part of the submissions made by WWF, Friends of the Earth and The Cornerhouse on the Sakhalin II project to the ECGD's consultation.<sup>xxiii,xxiv</sup> This analysis also showed how the ECGD supporting the Sakhalin II project would be inconsistent with the UK Government's policy on Biodiversity, Strategic Environmental Assessment and Environmental Impact Assessment, and the Precautionary Principle.

According to SEIC, the Piltun-Astokhskoye and Lunskeye oil and gas fields contain recoverable hydrocarbon volumes of more than 1 billion barrels (150 million tonnes) of crude oil and more than 500 billion cubic metres (18 trillion cubic feet) of gas.<sup>xxv</sup> The Sakhalin II oil and gas project will thus result in around an additional 1.5 billion tonnes of CO<sub>2</sub> being added to the atmosphere – approximately 0.5 billion from the oil extracted and 1 billion from the extracted gas. Operational emissions are estimated at a further 100 million tonnes.<sup>xxvi</sup> In total this would be equivalent to 40 million tonnes of CO<sub>2</sub> per year over a 40 year lifespan of the project.

To put this in perspective, UK emissions of CO<sub>2</sub> are around 550 million tonnes per year;<sup>xxvii</sup> thus Sakhalin II will result in about 3 years' worth of UK emissions. We note that Shell reports on the greenhouse gas emissions resulting from both its operations and use of its products at group level, so it is reasonable that both operational and product use emissions should be taken into account.

To compound the disappointment, the project is purely for export. So while Japan and the Pacific Rim is safe in its supply of oil and gas, the relatively poor communities of Sakhalin Island are disregarded. Despite the UK Government prioritising access to energy, the project has no component to deliver reliable energy to local towns experiencing -40°C in the winter.

For more information on Sakhalin II go to [www.panda.org/sakhalin](http://www.panda.org/sakhalin)

## 7. Lack of direction

It is noteworthy that the ECGD has never turned down an application on environmental or social grounds. The ECGD's explanation is that it uses constructive engagement to improve the quality of projects it engages in. This relies on the ECGD or other financing partners having sufficient influence over the project operator. This lack of screening exposes the ECGD by requiring no minimum standards for consideration, and means that there is no restriction on carbon intensive projects.

The ECGD gave evidence to the Environmental Audit Committee in 2003 that it was developing sustainable development indicators to measure its impact. Three years later, there is no such public reporting against such indicators by the ECGD. The ECGD put an MSc thesis on its website suggesting some indicators but has not actively consulted. WWF does not consider it adequate that these proposals only cover power generation, not the oil and gas sector or aviation. It is essential that the ECGD captures its share of emissions at a project level in order to calculate an accurate total, and publicly reports this. The lack of transparency on greenhouse gas emissions specifically has been outlined above.

It is clear that relying on influence, does not change the fundamentally unsustainable nature of some of the sectors supported by the department. The ECGD is currently reliant on applications to dictate its portfolio. WWF does not believe that the ECGD is reflecting the UK's position on climate change and the urgent need to reduce greenhouse gas emissions. In this regard the ECGD is unable to adequately take into account these international policies of the UK Government.

The ECGD urgently needs to send a clearer message to the private sector of a decarbonised portfolio. At present the ECGD continues to talk of the opportunities in the oil and gas sector, rather than the opportunities to tackle climate change. The following statement from the 2005/6 Annual Review describes a bizarre paradox, that the ECGD considers that the higher the oil price, and the more cash the oil industry has available, the more it needs ECGD's subsidy.

*“High oil prices are giving an added impetus to the undertaking of new projects in the hydrocarbons sector – in respect of the upstream, midstream and downstream sectors. In the past year this has again been one of ECGD's most active sectors. The Department aims to help UK companies benefit from the associated high levels of global 'petro-dollar' liquidity.”*

This contrasts starkly with the comments of the Environmental Audit Committee:

*“Improving the energy capacity and infrastructure in developing countries is an essential element of poverty reduction and sustainable development. The use of traditional fossil fuels to achieve this can be very damaging both to the environment and quality of life for local inhabitants. The UK has an opportunity to contribute to sustainable development on a global scale through the provision of renewable energy technologies and equipment.”*

Such a shift will require an organisation with different expertise and different objectives to those of ECGD.

## **Legal challenges**

The American equivalent of the ECGD, the US Export-Import Bank (Ex-Im) has also been challenged in court. This case is still being deliberated, despite challenges from the US Government. The lawsuit alleges that Ex-Im and OPIC illegally provided over \$32 billion in financing and insurance for oil fields, pipelines and coal-fired power plants over 10 years without assessing their contribution to global warming, or their impact on the US environment as required under the National Environmental Policy Act (NEPA).<sup>xxviii</sup>

Legal avenues are a last resort and WWF would prefer that the ECGD simply responded to these matters in line with the UK Government commitments.

## **Failure to respond**

This is not the first time WWF and others have raised this. WWF,<sup>xxix</sup> Greenpeace,<sup>xxx</sup> Friends of the Earth<sup>xxxi</sup> and The Cornerhouse have all highlighted the lack of attention to the climate change impacts of the ECGD's activities. This has taken the form of submissions to the ECGD's review of its case impact analysis procedures,<sup>xxxii</sup> and submissions to the Environmental Audit Committee review of the ECGD. More recently this has also been raised as the ECGD develops its Sustainable Development Action Plan. Despite these submissions, the ECGD has not incorporated sufficient consideration of climate change issues into its processes. As a result it is still business as usual at the ECGD. Indeed, the ECGD currently see the oil and gas sector as a key part of their business going forward.

## **Lagging behind**

Commercial banks such as HSBC and Citigroup have already developed climate change policies and targets to reduce emissions in recent years. The ECGD is again falling behind, rather than placing sustainable development at the heart of its operations.

It is interesting to compare the ECGD's situation with the Virgin Group. As a private investor, Virgin also has large interests in rail and air transport. Sir Richard Branson announced in September 2006 that he would be investing the profits from these carbon-intensive travel divisions to develop new renewable energy technologies. Over the next 10 years this is expected to total around £1.6 billion. This step at least demonstrates an awareness of the contributions of the business to the problem, and sends a signal that Virgin is willing to change. The ECGD needs to consider how it can show leadership, rather than being a laggard compared to the private sector.

The ECGD has even more of an obligation to tackle these issues given its responsibilities to be in accord with UK Government policy on climate change. Business is also looking to the Government to set the policy frameworks to enable it to make these shifts.

## **8. Recommendations**

WWF, therefore, is calling on the Government and the Secretary of State for the ECGD to urgently review the mandate of the ECGD with regard to climate change. This review must be coherent with the policies in DEFRA and DFID on climate change. Both DEFRA and DFID must take a strong position on the reform of the ECGD to ensure that it is fully in line with Government policy.

Specifically:

- the ECGD should ensure clear, transparent and public reporting of the greenhouse gas emissions derived from the projects it supports; and
- the Government should amend the primary legislation that sets the remit of the ECGD and require it to phase out its support for carbon intensive sectors.

## **9. Conclusion**

ECGD's inability to consider climate change issues is an unacceptable situation. The department needs to take urgent action to rectify this. The ECGD is falling behind in terms of risk management, transparency and contributions to reducing greenhouse gas emissions. The ECGD is in direct contradiction of the UK Government position on climate change agreed across other departments. The Stern Review is a timely intervention which should result in fundamental changes in government interactions with the financing of carbon intensive activities.

If the ECGD continues to finance investments that commit us to decades of fossil fuel emissions, such as Sakhalin II, it will be consciously breaching its requirement to be in accord with UK Government objectives. The ECGD is currently an embarrassment to the UK because of its poor record on climate change, and must not be allowed to fly low beneath the radar of policies to reduce carbon emissions.

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Appendix: Extract from redacted ECGD Business Principles Unit Review of the Baku-Tbilisi-Ceyhan Pipeline provided under the Freedom of Information Act.

BPU Review of Baku-Tbilisi-Ceyhan Pipeline Project

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NGOs<sup>21</sup> have criticised the lack of assessment of the wider climatic impacts resulting from the end use of the oil transported.

**BPU assessment**

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WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature, by:

- conserving the world's biological diversity
- ensuring that the use of renewable natural resources is sustainable
- promoting the reduction of pollution and wasteful consumption

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