

Export Credits and the Environment

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Introduction

Official export credit agencies (ECAs) support exports, much of which support goes to emerging economies, by providing loan guarantees, export credit insurance and direct loans. In 2002, the amount of business covered by such support was approximately USD 50 billion. Typically, officially supported export credits are provided to enable recipient countries to fund major capital goods and projects exported by the home country of the ECA, such as roads, mining, railways or airports.

These projects need medium to long-term financing that is not always available from the market and cover for the risk of non-repayment – this risk varies according to the type of project and buyer as well as the recipient country's ability to service its external debt.

ECAs provide the necessary cover against such buyer and political risks, either in the form of a loan guarantee, insurance or a direct loan for which ECAs charge risk premiums. Premiums should be commensurate to the risks covered in order to meet long-term operating costs and losses.

In recent years both governments and civil society organizations have expressed increasing concern about the environmental impact of projects benefiting from official export credits. Work on this issue at the OECD has culminated in the adoption in December 2003 of an OECD *Recommendation on Common Approaches on Environment and Officially Supported Export Credits*.

This *Policy Brief* describes what the Common Approaches are and how OECD ECAs are expected to implement them. ■

How has the environment been brought into export credits?

A few OECD members had, since the mid-1990's, implemented environmental guidelines when offering official support to an export credit. These countries first brought the issue to the OECD in the late 1990's in the framework of the Organisation's Working Party on Export Credits and Credit Guarantees (ECG). Political impetus was added to the debate at various G7/8 Summits by ministers who encouraged the work of the ECG in this field.

Simultaneously, public concern about the environmental impact of projects benefiting from officially supported export credits attracted much interest among Civil Society Organisations (CSOs). A number of CSOs thus developed campaigns on export credit issues, advocating the need to impose international disciplines on ECAs regarding the environmental impact of their activities. ■

What led up to the 2003 Recommendation?

The 2003 OECD *Recommendation* was preceded by a *Statement of Intent* on Export Credits and the Environment that reflected the desire of ECG members to strengthen consideration of the environmental impact of projects during the risk-assessment phase. In 1999, the ECG focused its efforts on large infrastructure projects located in environmentally sensitive sectors such as pulp and paper, mining or oil refineries, for which ECG members agreed to exchange information. The ECG members further adopted an *Action Statement* in 2000, together with a *Work Plan* which led to the establishment in 2001 of the first set of Common Approaches on export credits and the environment.

Box 1. ECG AND STAKEHOLDERS

Over the last years, and particularly when opening negotiation sessions leading to disciplines on environmental issues, the ECG has regularly consulted with **BIAC** and **TUAC**, as well as with **CSOs**.

BIAC and **TUAC** are accredited to the OECD as official advisory bodies and have as their members business and labour federations in each of the adhering countries. BIAC and TUAC are able to interact with the ECG at any time, their Paris-based staff being in regular contact with the OECD and member country delegations.

CSOs have long pressed for a voice at the OECD on the issue of export credits and the environment. CSOs (around 25 different groups, some from buyers' countries) have regularly sent letters, proposals, comments on official documents, and have been involved in formal dialogue with the ECG since 1997/1998. The ECG is committed to an annual consultation with Stakeholders on matters covered by the Common Approaches.

All correspondence with CSOs is available on the OECD Website.

The 2001 Common Approaches encompassed procedures for identifying and evaluating the environmental impacts of projects and exports of capital goods and services destined to projects when taking decisions on officially supported export credits. The Common Approaches were unilaterally and voluntarily implemented by almost all members during 2002 and 2003, in the absence of a full consensus in the ECG.

These 2001 Common Approaches were to be reviewed no later than 2003 in the light of experience with the aim of: 1) strengthening the 2001 text in order to improve the ways by which members incorporate environmental concerns in their export credit lending and insurance policies; and 2) trying to ensure that the revised text would be acceptable to all members as an OECD *Recommendation*.

Several ECG negotiating sessions were held in late 2003 in order to reach a consensus. During the review phase, the ECG conducted dialogue with stakeholders, including the OECD Business and Industry Advisory Committee (BIAC), the Trade Union Advisory Committee (TUAC) and CSOs.

In December 2003 the OECD Council eventually adopted a *Recommendation on Common Approaches on Environment and Officially Supported Export Credits*. First OECD legal instrument in this trade area, the *Recommendation* represents a significant step in the trend for greater accountability of export credit systems; it is expected to contribute to better coherence in public policies in the context of sustainable development and good governance.

The *Recommendation on Common Approaches* is an official OECD act. From a legal point of view it is not binding, but practice accords a *Recommendation* great moral force as representing the political will of member countries. Therefore, the ECG expects that its members will do their utmost to implement fully the *Recommendation*. ■

What principles and procedures are contained in the *Recommendation*?

The 2003 *Recommendation* improves on the first set of Common Approaches and calls on members to adjust their export credit systems in order to assess better the potential impact of the project supported on the recipient country's environment. One of the core objectives of the *Recommendation* is to ensure a high degree of compliance with established international environmental standards whilst avoiding distortions of competition among OECD exporters.

The *Recommendation* sets out procedures to be followed by the ECG members when considering official support for projects, including:

- Screening applications for capital goods projects and classifying them into categories according to their potential environmental impact; particular attention is paid to projects in sensitive sectors or in or near sensitive areas. “Category A” projects are those projects that are likely to have significant adverse environmental impact (in principle, projects in sensitive sectors or located in or near sensitive areas). The potential environmental impact of “Category B” projects is less adverse than that of Category A.
- Reviewing sensitive projects and requiring a full Environmental Impact Assessment for those that may have the most significant impact on the environment.
- Using internationally recognised environmental standards (most of the time those of the World Bank) as conditions for official support.
- Ensuring sufficient transparency (*e.g.* with the affected local population, interested Stakeholders) before taking a decision on official support.
- Taking a decision on official support – accept, decline, accept subject to further environmental conditions (more environmentally friendly techniques, emissions levels, re-settlement issues, etc.).
- Setting up monitoring and compliance mechanisms in order to keep a close eye on projects once official support has been granted. ■

What are its new elements?

For many OECD members, the 2001 Common Approaches represented the driving force leading them to incorporate environmental elements into their own export credits procedures. However, these Common Approaches were subject to criticism for being too vague on some important elements such as the type of environmental standards to be applied, or the level of transparency *vis-à-vis* Stakeholders.

Box 2.

OBJECTIVES OF THE OECD RECOMMENDATION ON COMMON APPROACHES

The *Recommendation* sets out four main objectives for OECD members:

- promote coherence between policies regarding officially supported export credits and policies for the protection of the environment;
- maintain a high level of environmental protection;
- establish a level playing field among competitors, in order to avoid trade distortion as well as a “race to the bottom” on environmental grounds; and
- ensure that the environmental procedures should not represent an excessive burden for private business.

In the course of the review undertaken in the last quarter of 2003 which led to the *Recommendation*, the Common Approaches have been strengthened and are now more robust. They require that OECD member countries take specific actions within defined limits. In comparison with the 2001 Common Approaches, the changes to the text reinforce the core elements – environmental impact, level playing field and policy coherence – against the background of the sustainable development agenda.

The main enhancements of the 2001 Common Approaches concern environmental standards and *ex ante* transparency:

- There is a clear recognition that when reviewing the environmental impact of projects members should, in all cases, comply with the standards of the host country and when the relevant international standards against which the project has been benchmarked are more stringent these standards would be applied.
- To identify which would be the appropriate international standards, the members agreed to follow the standards set by organizations considered to be the most robust, i.e. World Bank Group and, where applicable from a geographical viewpoint, Regional Development Banks. Members may also benchmark against any higher internationally-recognised environmental standards such as European Community standards.
- With regard to the most sensitive projects (*e.g.* pulp and paper, mining, dams, oil refineries), the standards to be applied will be reported and monitored by the ECG. In addition, members will seek to make environmental information, particularly Environmental Impact Assessment Reports, publicly available 30 calendar days **before** final commitment. ■

How is the *Recommendation* monitored?

Each ECG member is responsible for developing, within its own ECA, the necessary environmental guidelines – in whatever legal form – to comply with the *Recommendation*. To this end, ECG members started in 2004 to review and, when appropriate, to upgrade their export credit procedures and practices. Twice a year, these practices are reported to the ECG and a survey drawn from these reports is made public on the OECD Web site.

The ECG is also the OECD Body responsible for the monitoring of the implementation of the *Recommendation*. The legally non-binding nature of the *Recommendation* precludes the ECG from acting as a judicial or quasi-judicial body. However, the peer-pressure exerted in the ECG Group is an efficient tool regarding implementation of the *Recommendation*, i.e. by:

- Further refining the implementation of the *Recommendation* by seeking views from its members' environmental experts.

- Organising exchanges of views, among members or as appropriate with interested stakeholders on matters relating to the *Recommendation*.
- Monitoring the implementation of the *Recommendation* through regular notifications and reports. In particular, OECD members are expected to report annually to the ECG details of all “Category A and B” projects; such reporting is examined by the ECG and aggregated information derived is publicly disseminated.
- Reviewing the *Recommendation* no later than 2006 so as to ensure its relevance and effectiveness. ■

What is the impact of the *Recommendation*?

In negotiating the *Recommendation*, OECD members have shown their political willingness to establish a robust mechanism for reviewing the environmental impact of projects benefiting from their support. In practical terms, the *Recommendation* leads OECD members to:

- Publish an environmental strategy or policy in order to inform the exporters and the public of the procedures to be followed when applying for official support.
- Engage in an early dialogue with interested parties (exporters, banks, project sponsors, recipient countries...) in order to obtain the necessary information for reviewing the environmental impact of the project.
- Improve their knowledge of environmental issues, either by hiring in-house environmental experts within ECAs or by using consultancy services to assist the review of sensitive projects.
- Further upgrade their own environmental procedures, for instance by developing more specific sectoral guidelines, or by establishing compliance mechanisms that include objection procedures. The *Recommendation* allows each OECD member to adopt more stringent environmental guidelines than its provisions. ■

What next?

The *Recommendation* will be reviewed no later than the end of 2006. OECD members will re-examine the text in the light of their experience in implementing it, but also in the light of potential evolutions of other international disciplines on the environmental and export credits.

It is expected that the World Bank/IFC will review its own environmental standards and guidelines that are referred to by most OECD members. The ECG will also keep in mind that several international private banks decided in June to apply their own environment guidelines (the “Equator Principles”) and these may also evolve in the future. ■

For further information

More information about the *Recommendation* and implementation procedures can be obtained from:

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- Visit the OECD Export Credit Web site at www.oecd.org/ech/xcred
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For further reading

For the full text of the **Recommendation**, see www.oecd.org/ech/csos/xcred

For free copies of the bi-annual **Survey on OECD Members' Procedures and Practices regarding Officially Supported Export Credits and the Environment**, see www.oecd.org/ech/csos/xcred

For the **Annual Report on Category A and B Projects** officially supported by OECD members, see www.oecd.org/ech/csos/xcred

The **Equator Principles** are available at: www.equator-principles.com

OECD publications can be purchased from our online bookshop:

www.oecd.org/bookshop

OECD publications and statistical databases are also available via our online library:

www.SourceOECD.org

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