

EXPORTING SUSTAINABILITY:

A cap and trade proposal to reduce the climate impact of the Export-Import Bank of the United States

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*with special thanks to A. Slaughter, D. Mauzerall, & A. Petsonk

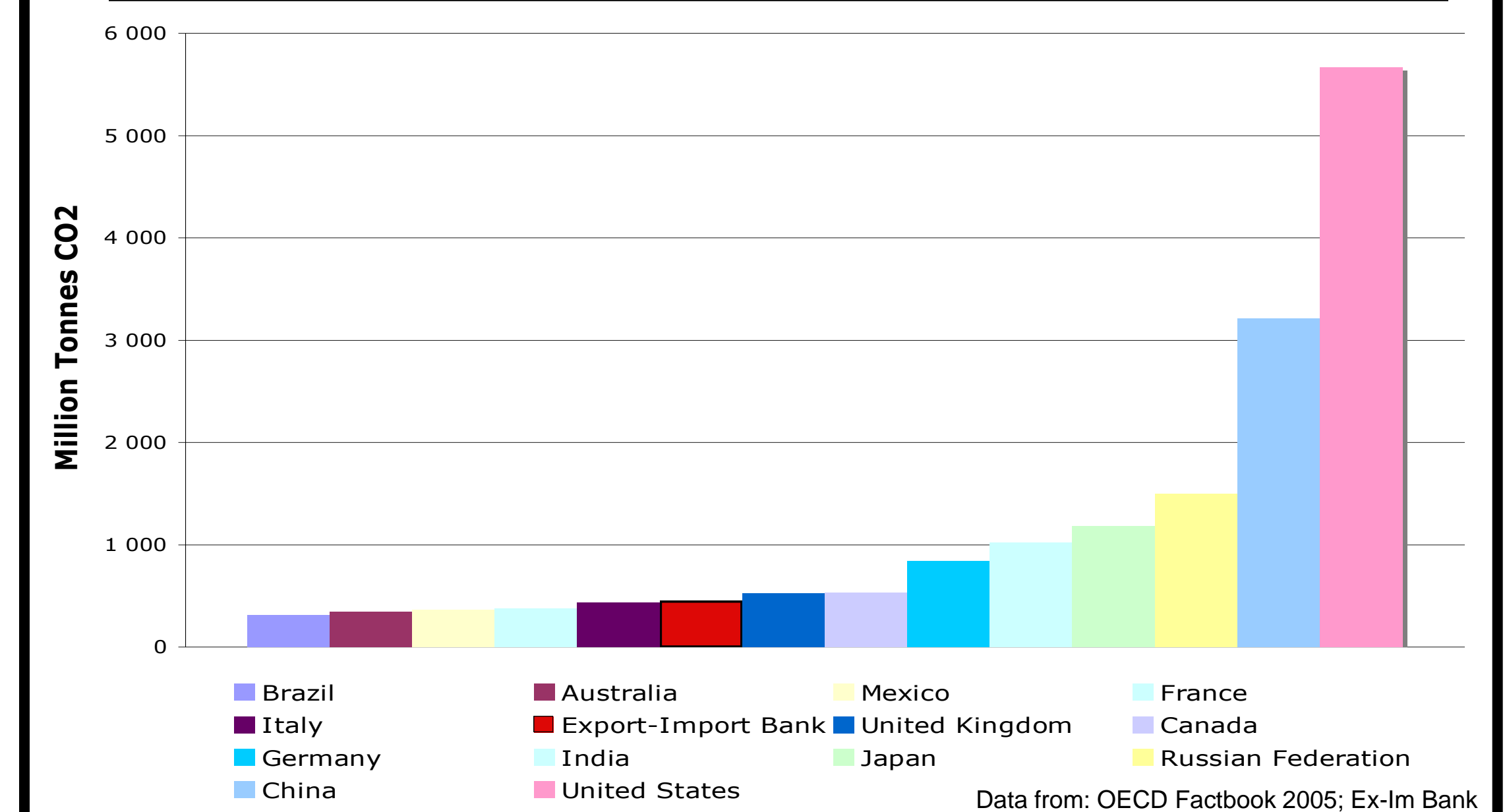
WHAT IS THE EXPORT-IMPORT BANK?

- An **independent agency** of the United States, chartered by the U.S. Congress
- An **export credit agency**, a "financial institution whose purpose is to *promote the exports of their respective countries by providing loans, guarantees, insurance, technical assistance, and more with the backing or approval of the national government*" (Delio Gianturco)
- ECAs directly finance **1 out of every 8 dollars** of world trade (Gianturco)
- The Export-Import Bank of the U.S. finances **\$10-13 billion** of U.S. exports per year

HOW DOES IT AFFECT CLIMATE CHANGE?

- Direct financial support** of power plants, oilfield development, and cement factories.
- Establishment of **infrastructure** in developing countries **based on nonrenewable energy** technologies
- Delayed implementation** of proven **renewable** energy resources
- Indirectly, **weakens political opportunities** to establish international multilateral agreements to reduce GHG emissions

ENERGY SECTOR EMISSIONS (2002)



EX-IM BANK ENERGY FINANCING

- 98% of energy financing** (~\$1-3bn/yr) is authorized for export of **fossil-fuel based energy projects**, including generation and extraction
- By 2012, the Bank's power generation portfolio will contribute at least **450 mn tonnes CO₂/year**
- Ex-Im Bank contribution to global CO₂ emissions will peak at 1.2%, according to its own conservative assumptions
- Fossil fuel extraction projects financed by Ex-Im Bank will generate about **14.1 bn tonnes CO₂** in their lifetimes, **half the projected global emissions in 2010** and **more than current OECD annual emissions**. (Ex-Im Bank; OECD Factbook 2006)

CURRENT EFFORTS ARE INADEQUATE

- The Bank **failed to achieve** a recommended **10% renewable portfolio standard**
- Current environmental regulations **do not take into account GHG emissions**
 - Traditional definitions of pollutants exclude CO₂.
 - Federal standards do not regulate CO₂.
- Current litigation will not establish a comprehensive, long-term policy, and will have limited effects on other export credit agencies.
- The Environmental Exports Program is **uncertain** and not significant enough to overcome **technology lock-out**, nor can it guarantee reduced CO₂ emissions.

THE CAP FITS BECAUSE:

- Projects are **heterogeneous** and **vary** in size, fuel source, location, and technology
- CO₂ emissions are **fully fungible**
- A trading scheme **fosters inter-firm enforcement**:
 - Buyers are held responsible for the permits they purchase and can demand high standards of reporting transparency
 - Sellers may differentiate on the basis of credibility
- A **cap and trade** scheme **offers** flexibility, incentives to reduce beyond initial emissions allocations, market expansion potential, administrative consistency, and guaranteed emissions reductions

RECOMMENDED DESIGN FEATURES

- Absolute (versus relative) cap set at 2000 emissions levels by 2017; reductions in 5-yr compliance periods
- Banking: inter-compliance and intra-compliance period borrowing
- Immediate coverage of: energy, extraction, aircraft industries
- Future coverage of transport and building sectors
- Upstream accounting except where extraction and fuel transport projects do not contribute to upstream projects already financed by the Bank
- Initial credit allocations based on energy intensity and subsequent allocations by auction

RECOMMENDED DESIGN FEATURES

- Third party emissions monitoring and verification, and public reporting procedures
- Third party market execution
- Openness to market linkages with other verifiably effective international carbon emissions markets
- Enforcement mechanisms that render non-compliance more expensive than compliance
- RECOMMENDED AUTHORITY:** Congressional mandate and oversight

OBSTACLES AND ADVANTAGES

Obstacles

- Opposition by **current exporters**, the **Bank**, and climate **skeptics**
- Opposition by **host countries**
- Opposition by **other export credit agencies**
- International Law conflicts: the **WTO Agreement** and the **OECD Common Approaches**

Advantages

- Domestic Energy Policy: addresses **energy security**, consistent with an **independent approach** to addressing **climate change**, develops the **domestic renewables** sector
- International Political Capital: would be a step towards **better relations** with developed and developing countries