CLIMATE & ENVIRONMENTAL GOVERNANCE NETWORK (CEGNet)

Working Paper 11

POLITICAL RISK, GREEN GOVERNANCE & THE CHALLENGE OF Resetting the Government/Business Relationship: Exploring the Role of Export Credit Agencies

Fiona Haines

March 2011
ABSTRACT
To achieve ‘green growth’ a dramatic shift in the governance of business is required. Understanding the complex risk equation that lies at the heart of green growth is essential to bringing about such change. This equation involves risks beyond the actuarial challenges associated with reducing carbon emissions to socio-cultural and political risks. In particular, the dependence of government fortunes on traditional industries and the ever-pressing need to pursue economic growth (a central feature of political risk) thus far have failed to adequately support nascent attempts to ‘green’ the economy. From a regulatory perspective, at centre stage here are not so much traditional forms of governance but what might be understood as regulation through reward. This paper analyses one particular aspect of the governance of rewards, those found in the form of loans and guarantees given by government to export businesses through Export Credit Agencies (ECAs), and in particular the Australian Export Finance and Insurance Corporation (EFIC). The importance of resetting the relationship between government and business as a target for reorientating growth has not been lost by environmental NGOs. Recent NGO activism in the United States has been aimed at increasing the transparency of export credit activities in order to better assess business compliance with their environmental and social responsibilities. This has seen some success, with Ex-Im, the US ECA, now required to take steps towards funding business in a manner consistent with ‘green growth’.

CITATION
This paper can be cited as: Haines, F. 2011. Political Risk, Green Governance and the Challenge of Resetting The Government/Business Relationship: exploring the role of Export Credit Agencies, Climate and Environmental Governance Network Working Paper No. 11, Regulatory Institutions Network, ANU.

ADDRESS FOR CORRESPONDENCE
Climate and Environmental Governance Network
Regulatory Institutions Network
Coombs Extension (Building #8)
The Australian National University
Canberra, ACT, 0200
f.haines@unimelb.edu.au

DISCLAIMER
The views expressed in this paper are the authors’ alone and do not reflect any formal opinion of the Climate and Environmental Governance Network, the Regulatory Institutions Network or the Australian National University. They are provided for the purposes of general discussion. Before relying on the material in this paper, readers should carefully make their own assessment and check with other sources as to its accuracy, currency, completeness and relevance for their purposes.
INTRODUCTION

A critical issue for governments is how best to manage economic well-being alongside the harms that arise from economic activity, including environmental degradation and climate change. The traditional response of government to environmental damage wrought by business has been to put in place an array of regulatory regimes, demands enforced by dedicated environmental protection and natural resource agencies. In this paper, I argue that regulatory scholars might find a fruitful line of enquiry in paying greater attention to a broad consideration of regulation by reward (Grabosky, 2008). Regulation by reward in the context of climate change can attract scholarly attention to consider the rewards governments provide to business, rewards in the form of loans and guarantees that aim to enhance economic growth. These rewards might be considered largely as lying outside the aegis of environmental regulatory concern and the challenge of green governance. Yet, the tight connection between economic growth and emissions (Christoff, 2006, Clark, 1995, Jackson, 2009) means that such a narrow focus may no longer be tenable.

The realisation of effective governance aimed at green growth assumes that the integration of economic and environmental concerns under a growth paradigm is possible. Under green governance government activity aimed at securing economic growth must set as the highest priority environmental sustainability (Goodland & Daly, 1996). To achieve this, the reward side of the regulatory equation necessarily must be scrutinised to ensure that the foundation for business activity rests upon environmental sustainability. Put simply, environmentally destructive business activity should not be rewarded – even if it enables economic growth in the short to medium term.

Certainly, to achieve such an end requires a clear understanding of the impact of economic activity on the environment. The actuarial risk a business poses to environmental sustainability must be measured and close monitoring the reduction of such harm clear. Indeed, assessment of environmental impact is commonplace before business activity is allowed to commence. Certainly, climate change poses additional demands here with environmental assessments around the calculation of carbon pollution currently subject to rapid development (see e.g. Simnett & Nugent, 2007). There are added complexities, too, with very real conflicts between climate and biodiversity impacts where reducing carbon emissions comes at the expense of biodiversity – for example in the use of bio-fuels and the consequent reduction of forest cover.

Actuarial risk associated with environmental harm, important as it is, is not the only risk of concern. Institutionalising green governance faces considerable risk challenges beyond the reduction of environmental harm (Haines, 2011a, Haines, 2011b). The acceptance of wholesale change within a society towards green governance requires the citizenry both to be reassured about the capacity of their society to "hang together" through the change and that they will remain valued as individuals within the greater whole. These are risks of a more socio-cultural nature where concerns about social integration move to centre stage (Douglas, 1966, Durkheim, 1964). Green governance strategies must reduce the
environmental damage, both ecology and climate related (i.e. actuarial risks) as well as reassuring the affected populations about the ongoing viability of their own society and value of each individual within it (socio-cultural risk). The rewards to business flowing from government, then, must be targeted at those activities which can enhance social integration whilst re-orientating work in a manner compatible with a green economy.

Critically, this re-orientation poses significant political risk. Indeed, a central risk challenge for sustainability with respect to global warming is how to manage the political risks associated with a massive social change without sacrificing the necessary environmental gains (Haines, 2011a, see also Paterson, 2010). Let me be clear here, political risk here is understood here as challenges to political legitimacy as understood by Habermas (Habermas, 1989, Haines, 2011b). In the context of climate change, managing the political risks to governments that arise from such a re-orientation in the economy has to be achieved alongside a dramatic reduction in greenhouse gas emissions. Retaining legitimacy requires governments to attend to the economic demands within their jurisdiction as well as providing the citizenry with a sense of security. Governments must be able reassure the citizenry of their security and their value throughout the process of change. Put succinctly, within capitalist economies political risk management requires government to sustain economic growth (and revenue to the treasury) and ‘make people feel safe.’

Viewed from a perspective of risk, then, green governance requires the management of three separate ideal types of risk: political, socio-cultural, and actuarial simultaneously. All three have significant implications for the way forward, but the challenge of overcoming political risk in the context of anthropogenic climate change has proved particularly problematic in thwarting international and national agreements alike – particularly in Australia (Christoff, 2006, Haines, 2011a, Pearce, 2007). Indeed, many initiatives aimed at reducing greenhouse gas emissions both at the national and international level have foundered because national governments have feared the reaction of voters and business and the consequent impact on their political fortunes (McCright & Dunlap, 2003).

Under a green governance paradigm, business activity premised on consumption and destruction of the environment must be transformed towards long-term environmental sustainability (Goodland & Daly, 1996). Necessarily, this involves a change in orientation both for government and business. Governments must have a vision of an environmentally sustainable economy and work towards shaping economic growth towards the realisation of this vision to which the creativity of the market must respond. Such a transformation sits at a critical juncture in the political risk management equation. It requires governments to premise economic activity on environmental sustainability and to eschew economic activity that may be highly profitable (at least in the short to medium term) and which provides a sense of security for the citizenry but which is environmentally unacceptable.
Part of the reason for the size of this task is that economic growth is an overriding concern for government. Poor economic management threatens not only political legitimacy but the government treasury. Providing the conditions under which economic growth can flourish, such as necessary infrastructure or financial incentives for business relocation or investment, captures considerable government attention. Entrepreneurs are welcomed by governments as an important part of the engine room of the economy (Bernstein, 1996, O'Malley, 2004). Their activities are seen to provide jobs and the wealth they generate fundamental to both citizens and government alike. The response to the recent global financial crisis is but one illustration of the overweening attention that is given to keeping the economy growing at an even intensity (see e.g. IMF, 2009). In the context of climate change, however, reducing political risk has to be achieved alongside a dramatic reduction in greenhouse gas emissions.

**EXPORT CREDIT AGENCIES & THE EXAMPLE OF EXPORT FINANCE INSURANCE CORPORATION (EFIC)**

One family of institutions illustrate this complex risk equation well, and in particular the nexus between government and business that lies at the heart of the management of political risk. Export Credit Agencies (ECAs) are government-sponsored institutions that provide loans and guarantees to local business engaging international trade. Many national governments (28 in the OECD alone) assist local companies to penetrate overseas markets through the provision of financial and other sources of support. ECAs are set up by National governments and provide support in the form of loans and political risk insurance, insurance that provides compensation to businesses for losses they incur should their investment go awry as in the case of civil conflict.

ECAs provide a fascinating insight into the size of the challenge for green governance. They can be understood as a creature of both the post-war emphasis on trade as the basis for economic and political security and national government attempts to secure advantage for their firms within the global economy. Yet, they can also be seen as somewhat of an anomaly in terms of the philosophy of free trade, since government funding for local business in the international market place could be seen as a subsidy and a distortion of that market. For this reason, the ECAs of OECD countries are parties to an Export Credit Arrangement\(^1\) under the OECD which aims to draw a difficult line between legitimate support for local business and ‘distortion’ of international trade. The language of the OECD in introducing the Export Credit Arrangement is interesting in this regard, stating:

> The main purpose of the [Export Credit] Arrangement is to provide a framework for the orderly use of officially supported export credits. In

\(^1\) It is interesting that the OECD states that the Agreement is a “Gentlemen’s Agreement” between certain countries and not an official agreement of the OECD. The OECD argues that this agreement allows it to exploit a “useful ambiguity” presumably in its relationship to the OECD and its governance framework. See OECD (n.d.-a) ‘The Participants to the Export Credit Arrangement’.  

5
practice, this means providing for a level playing field (whereby exporters compete on the basis of the price and quality of their products rather than the financial terms provided) and reducing subsidies and trade distortions related to officially supported export credits. (OECD, n.d.-b)

The main points of interest for us here is to understand that ECAs are placed at a critical juncture in the shift to green governance two different, but interrelated ways. Firstly, they are placed in a central location in terms of the relationship between national governments and business and as such provide critical insight into government management of their political risk. Secondly, they also are centrally placed with respect to the frameworks and incentives that underlie international trade. In this latter regard they also can be used to shed light on the emergence or otherwise of what might be termed 'ecologically sustainable' trade.

Australia's export credit agency is known as the Export Finance Insurance Corporation, or EFIC. EFIC's mission statement describes its purpose as "overcoming financial barriers for exporters" (EFIC, 2010). It sees its role as supporting Australian exporters when private financial assistance is not available. EFIC's website states:

By providing Financial Solutions, risk management options and professional advice in the private market lacks capacity or willingness, we create opportunities for Australian exporters and offshore investors to grow their international business. (EFIC 2010 p.2)

As an agency set up by the Commonwealth Government to enhance Australian business' fortunes overseas, EFIC is an institution that should reflect government efforts to 'green' the economy. EFIC has as a primary and over-riding goal the promotion of Australian national interest overseas and in particular through enhancing trade opportunities for local business. In contrast to some other ECAs, EFIC does not have an international development mandate and its involvement in aid projects is limited to managing finance for such projects (see Export Finance and Insurance Corporation Act 1991 (Cth) Part 2, Sec. 7). With Australia set to see a significant impact from anthropogenic climate change, (Garnaut, 2008) Australian interests would be well served through the promotion of innovative, sustainable exports.

Indeed, at one level, EFIC would seem to be an excellent example of an agency that promotes environmental sustainability. In its most recent annual report, EFIC argues that it "practices responsible lending in both financial and ethical contexts. We uphold best practice environmental and social standards in the transactions we support and in managing our business" (p.3). With respect to the environment, EFIC is required to report on how its activities comply with the principles of Ecologically Sustainable Development (ESD) in accordance with the Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act) (EFIC, 2009). At the heart of this assessment is the categorisation of projects according to the environmental and social risks they pose, with Category A being the highest risk (likely to have significant adverse environmental and/or social impacts) and Category C the lowest (those with minimal or no adverse social or environmental impact) (EFIC, 2009, OECD, 2007). Category C projects have no environmental impact assessment required. Public comment is required for
Category A projects, but not for Category B or C. EFIC's environment policy states that if it determines that the environmental and social consequences are unacceptable, or the mitigation or management plans inadequate, the project will not be funded. Ongoing monitoring of Category A projects are undertaken by EFIC, although assessment reports are not made publicly available.

In light of the analysis of risk above, there are a series of questions that need to be addressed if the projects supported by EFIC can be seen of as consistent with a shift to 'green governance' or 'ecologically sustainable trade'. First, and perhaps from a 'green growth' perspective most critically, projects supported should be those that are at the cutting edge of sustainable environmental practice. At a more detailed level, an actuarial risk assessment requires the following: first, there should be some assessment of the climate impact of projects supported, not just the localised environmental impact and secondly, there needs to be an assessment of the potential conflict between climate and biodiversity concerns. Socio-cultural risk requires additional considerations namely that in the pursuit of environmental goals significant harm to local communities must not be generated or existing tension exacerbated. From a socio-cultural risk perspective at the extreme projects may engender serious and violent civil conflict.

Table one contains the details of projects supported by EFIC in the financial year 2009-2010 (EFIC, 2010). Several elements are notable. Firstly, mining and construction makes up over 80% by value of the projects funded. Secondly, only one of the projects is Category A. That means that all other projects were not subject to public comment in terms of their environmental impact. However, the one category A project, support for the PNG LNG pipeline, constituted the largest commitment of EFIC of US$350 million. Together with support for projects associated with the pipeline total funding from EFIC was US $500 million.

In terms of the nature of the projects funded in the 2009-10 financial year, a superficial assessment might conclude that there is room for optimism. The projects include US$105.2 million for development of a sustainable water supply for Sri Lanka, for example. But alongside this is $50 million in support for an explosives plant in Indonesia, supplying explosives to mining and $6.8 million for increased infrastructure for the airline industry in the United Arab Emirates (EFIC, 2010 pp 17-31). The main difficulty, however, is a lack of information to assess overall environmental impact. Simply put, the means for any external evaluation of the environmental impact of these projects is missing. Indeed, despite the statement that environmental assessments of projects categorised at the highest level of risk (A) will be reported in the annual report, the report provides little information with respect to environmental impact of the various projects, (consisting of two pages pp 39-40). The Annual Report notes, however, that the environment policy is currently up for review. It is interesting to contrast this with 48 pages dedicated to the financial statements and analysis.

By virtue of its size, it is worth looking at the PNG LNG project supported by EFIC a little more closely. Certainly, there has been a significant increase in emphasis on LNG as a "low carbon" fossil fuel with emissions from LNG use over 50% lower than from coal using existing technology (PACE, 2009 but see Clemente,
<table>
<thead>
<tr>
<th>Exporter/Investor</th>
<th>Sector</th>
<th>Goods/Services</th>
<th>Country</th>
<th>Facility type</th>
<th>Amount (A$ million equivalent)</th>
<th>Environmental category</th>
</tr>
</thead>
<tbody>
<tr>
<td>African Underground Mining</td>
<td>Mining</td>
<td>Underground mining equipment</td>
<td>Ghana</td>
<td>Loan</td>
<td>16.2</td>
<td>B</td>
</tr>
<tr>
<td>Services Limited</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aircraft Support Industries Pty Ltd</td>
<td>Construction</td>
<td>Construct aircraft hangar</td>
<td>UAE</td>
<td>Bond</td>
<td>8.2</td>
<td>C</td>
</tr>
<tr>
<td>Aircraft Support Industries Pty Ltd</td>
<td>Construction</td>
<td>Construct aircraft hangar</td>
<td>Vietnam</td>
<td>Bond</td>
<td>1.5</td>
<td>C</td>
</tr>
<tr>
<td>Alfasi Group</td>
<td>Wholesale trade</td>
<td>Design and construct arts &amp; science museum</td>
<td>Singapore</td>
<td>Bond</td>
<td>1.1</td>
<td>C</td>
</tr>
<tr>
<td>Anglo Coal Australia Pty Ltd</td>
<td>Manufacturing</td>
<td>Receivables purchase facility</td>
<td>Various</td>
<td>Receivables financing facility</td>
<td>29.3</td>
<td>N/A</td>
</tr>
<tr>
<td>Clough Limited</td>
<td>Construction</td>
<td>Construction – various</td>
<td>Various</td>
<td>Bond</td>
<td>33.4</td>
<td>B</td>
</tr>
<tr>
<td>Environmental Systems and Services Pty Ltd</td>
<td>Professional, scientific &amp; technical services</td>
<td>Supply &amp; install satellite tracking station</td>
<td>China</td>
<td>Bond x 2</td>
<td>0.4</td>
<td>C</td>
</tr>
<tr>
<td>Fitch Metals Engineering</td>
<td>Manufacturing</td>
<td>Colour-coating equipment</td>
<td>Brazil</td>
<td>Bond x 2</td>
<td>1.8</td>
<td>C</td>
</tr>
<tr>
<td>GRM International Pty Ltd</td>
<td>Professional, scientific &amp; technical services</td>
<td>Services for Philippines health project</td>
<td>UAE</td>
<td>Bond</td>
<td>4.1</td>
<td>C</td>
</tr>
<tr>
<td>GRM International Pty Ltd</td>
<td>Professional, scientific &amp; technical services</td>
<td>Abu Dhabi Food Authority services contract</td>
<td>Philippines</td>
<td>Bond</td>
<td>0.5</td>
<td>C</td>
</tr>
<tr>
<td>Lend Lease Corporation Limited</td>
<td>Construction</td>
<td>Construction – various</td>
<td>Various</td>
<td>Bonding line</td>
<td>100.0</td>
<td>Note 1</td>
</tr>
<tr>
<td>McConnell Corporation Limited</td>
<td>Construction</td>
<td>PNG LNG infrastructure</td>
<td>PNG</td>
<td>Bond</td>
<td>13.9</td>
<td>Note 2</td>
</tr>
<tr>
<td>McConnell Corporation Limited</td>
<td>Construction</td>
<td>PNG LNG infrastructure</td>
<td>PNG</td>
<td>Bond</td>
<td>13.8</td>
<td>Note 2</td>
</tr>
<tr>
<td>Orica Australia Pty Ltd</td>
<td>Manufacturing</td>
<td>Construct chemical plant</td>
<td>Indonesia</td>
<td>PRI – E</td>
<td>45.8</td>
<td>B</td>
</tr>
<tr>
<td>Orica Australia Pty Ltd</td>
<td>Manufacturing</td>
<td>Construct chemical plant</td>
<td>Indonesia</td>
<td>Loan</td>
<td>51.3</td>
<td>B</td>
</tr>
<tr>
<td>Outotec Pty Ltd</td>
<td>Construction</td>
<td>Water treatment &amp; distribution system</td>
<td>Sri Lanka</td>
<td>EFG</td>
<td>125.0</td>
<td>B</td>
</tr>
<tr>
<td>Exporter/Investor</td>
<td>Sector</td>
<td>Goods/Services</td>
<td>Country</td>
<td>Facility type</td>
<td>Amount (A$ million equivalent)</td>
<td>Environmental category</td>
</tr>
<tr>
<td>--------------------------</td>
<td>---------------------------------------</td>
<td>-----------------------------------------</td>
<td>---------</td>
<td>---------------</td>
<td>-------------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Park Assist Pty Ltd</td>
<td>Manufacturing</td>
<td>Electronic guidance system parking</td>
<td>US</td>
<td>US bonding line</td>
<td>1.1</td>
<td>C</td>
</tr>
<tr>
<td>PNG LNG</td>
<td>Mining</td>
<td>PNG LNG project</td>
<td>PNG</td>
<td>Loan</td>
<td>383.4</td>
<td>A</td>
</tr>
<tr>
<td>Shark Bay Salt Pty Ltd</td>
<td>Manufacturing</td>
<td>Solar salt</td>
<td>Indonesia</td>
<td>DCG x 5</td>
<td>7.3</td>
<td>C</td>
</tr>
<tr>
<td>Sykes Group Pty Ltd</td>
<td>Manufacturing</td>
<td>Automatic pumps</td>
<td>Various</td>
<td>EWCG</td>
<td>4.5</td>
<td>C</td>
</tr>
<tr>
<td>Vigil Systems Pty Ltd</td>
<td>Transport, postal &amp; warehousing</td>
<td>Training software for commercial vehicle</td>
<td>US</td>
<td>Bond</td>
<td>0.3</td>
<td>C</td>
</tr>
<tr>
<td>Viocorp International Pty Ltd</td>
<td>Information media &amp; technology</td>
<td>Media services</td>
<td>Malaysia</td>
<td>EWCG</td>
<td>1.0</td>
<td>C</td>
</tr>
<tr>
<td>WorleyParsons Limited</td>
<td>Construction</td>
<td>Construction – various</td>
<td>Various</td>
<td>Bonding line</td>
<td>100.0</td>
<td>Note 1</td>
</tr>
</tbody>
</table>

- **Note 1** Facility involves a bonding line. Individual projects supported under the line are separately categorised.
- **Note 2** Considered part of the PNG LNG project and not separately categorised.
- **The PNG LNG facility was shared over the Commercial Account (US$100 million) and the National Interest Account (US$250 million).**
- **Includes renewals of existing facilities.**

* Source EFIC Annual Report 2010 p.25
At one level, then, the support for the LNG project would be consistent with the redirection of the economy. However, for overall reduction, the support for LNG should come with a commensurate reduction in the support for coal. Without such a reduction, there is no guarantee that the overall use of fossil fuels from all sources will not lead to an overall increase in carbon emissions if LNG exploitation is simply an addition to existing coal use. LNG remains a fossil fuel. It is non-renewable and emissions still result from its use. The net result would be relative decoupling of growth from carbon emissions, not the absolute decoupling necessary to tackle the problem of global warming (Jackson, 2009). Whilst LNG has some positive attributes from a climate perspective it can only be considered an interim solution. Support for innovative technology – that is zero carbon technology – would seem an ideal enterprise for EFIC to support. At least in 2009-10 there was no project of commensurate size supported by EFIC that indicated a radical shift away from the carbon economy. It is difficult to draw accurate conclusions in this regard, however. This is because the analysis of carbon emissions with respect to the projects funded (including the PNG LNG pipeline) is not made. There is no accessible way to evaluate whether the projects funded do indeed represent a real shift away from a carbon economy.

There are further considerations to be made of the PNG LNG project. EFIC has recently been the subject of a critical report written by the NGO Jubilee Australia entitled "Risky Business: Shining a Spotlight on Australia’s Export Credit Agency" (2009). Jubilee Australia makes several points worthy of comment. Firstly, the report notes the problem of the 'resources curse' namely the way that the emphasis on extractive industries can overshadow other industrial development. The emphasis on resources, and the wealth generated can stymie other more sustainable industries and activities that have a greater impact on alleviating poverty. That is, economic activity that is both socially as well as environmentally sustainable. The report also goes on to argue that resource projects have exacerbated, if not generated local conflict (Jubilee Australia, 2009). In the language of risk above, Jubilee Australia argues that the PNG LNG project has a high likelihood of exacerbating socio-cultural risk to unacceptable levels. An update by Jubilee Australia in February 2011 would seem to vindicate this view:

One year on from the signing of Papua New Guinea’s largest ever extractive industry project, led by American giant Exxon Mobil and Australian partners Oil Search and Santos, the PNG LNG project has already been linked with a number of worrying incidents, including tribal conflict, local landowner unrest, alleged abuses by the companies involved, and concerns over transparency of government decisions. In recent weeks the project reached boiling point when landowners closed down gas plants and mobilised on project sites following increased discontent over their benefits payments. A National Court Judge has stepped in to stop all LNG payments from banks and to freeze all accounts relating to benefit agreements until proper and transparent processes are set up for the distribution of landowner benefits.

This is not particular to PNG, however, arguably Australia also suffers from the resources curse which may help explain its resistance to action on climate change and support for innovation in this area (see Pearce 2007).
payments. Jubilee Australia is concerned that this and a number of other
developments during the first year of the project warrant serious
examination, not least by the Australian government, which has helped
finance the project through its largest ever export credit loan. (Jubilee
Australia, 2011)

It is important at this stage to separate environmental and social impact since
there is no simple relationship between social stability and environmental
sustainability. Efforts at promoting social justice, for example, do not inevitably
result in improved environmental outcomes. What is beneficial for one may not
enhance the other (Macintyre & Foale, 2004). Environmental damage provides
(quite legitimate) grounds for compensation, yet the payment of compensation
may do little to institutionalise environmentally sustainable economic growth.
What is evident is the current incapacity to combine resource extraction,
particularly in a third world context, with environmental sustainability. Of
particular importance here are the levels of environmental destruction that
Jubilee Australia outlines in its 2009 report. It identifies major environmental
problems with mining at Ok Tedi, Lihir gold, gold mining on Misima and oil
extraction in the Lake Kutubu region (pp. 34-5). So, whilst the climate impact
from LNG arguably may be positive, the overall impact in terms of ecological
sustainability remains problematic.

From both an actuarial and socio-cultural risk perspective, then, EFIC support for
the PNG LNG project can be criticised as inconsistent with green governance.
Firstly, the project cannot be considered at the forefront of climate and
environmentally friendly energy development. Further, the emphasis by EFIC on
this one project arguably may undermine funding and innovation in more
sustainable energy solutions by Australian companies wishing to export their
technology. Secondly, there has been no rigorous evaluation of the climate
impact of EFIC funded projects, including the PNG LNG project. There is no
carbon reporting requirement made. Thirdly, studies from both Jubilee Australia
(2009) and those more sympathetic to the resource industry (Macintyre & Foale,
2004) show significant local environmental effects. At the very least, the climate
gains from the exploitation of LNG would seem to be being prioritised over local
environmental damage. Finally, there is reason to be concerned about the
potential increase in socio-cultural risk that may emerge from the LNG pipeline.

Are there other examples, then, of ECAs that have made greater progress in
ensuring projects have a significantly improved impact? The answer is yes. There
have been recent developments in the United States with their ECA, the Export-
Import Bank of the United States (Ex-Im). In 2009, Ex-Im released an updated
Carbon Policy that it argued the policy “commits the Bank to be a leader in
financing of climate-friendly technologies made by American workers, including
those that reduce greenhouse gas emissions and increase energy efficiency” (Ex-
Im, 2009). The Carbon Policy commits Ex-Im to the financing of very low to zero
carbon dioxide emitting renewable energy exports, a commitment to greater
energy efficiency and transparency in the tracking of CO₂ emissions. Specifically,
Ex-Im commits to the transparent reporting of CO₂ emissions from all category A
and B projects and to advocating through the OECD that other ECAs do the same.
What is intriguing is the legal backdrop to this leadership by Ex-Im. The updated Carbon Policy stems from settlement of a lawsuit brought by Friends of the Earth and Greenpeace in the cities of Boulder, Colorado and Oakland and Santa Monica in California. The lawsuit argued that Ex-Im and another US ECA the Overseas Private Investment Corporation (OPIC) acted illegally “by providing $32 billion in financing for oil fields, pipelines and coal-fired power plants over the past ten years without assessing their contribution to global warming” (Rowe, 2002) in contravention of the National Environmental Policy Act (NEPA) (see Friends of the Earth Inc et al, 2006). The lawsuit was contested vigorously, with the US Justice Department arguing “[t]he basic connection between human induced greenhouse gas emissions and observed climate itself has not been established” (cited in Kintisch, 2005). The legal process took 7 years to be resolved, but the final settlement with Ex-Im provides some room for optimism. Of particular importance is the settlement agreement with respect to leadership. The settlement states:

Leadership role. Ex-Im Bank shall, consistent with its authority, and subject to the concurrence of the U.S. delegates to the OECD, and subject to the President's plenary authority to determine the foreign policy of the United States, and in a manner consistent with the international legal obligations of the United States, promote consideration of climate change issues, including greenhouse gas mitigation measures, within the OECD and amongst export credit agencies ("ECAs"), in a manner that ensures a level playing field (equal competition among ECAs based on price, time, and quality). Examples of such promotion, consideration, and/or mitigation measures include:

a. proposing longer terms for projects designed with significant CO₂ reductions and mitigants;

b. considering how the potential economic costs associated with high carbon intensity projects can be assessed by ECAs and factored into financing decisions;

c. expanding the scope, flexibility and terms of ECA support for renewable energy projects;

d. identifying and reducing barriers to ECA support for renewable energy projects;

e. encouraging transparency and involvement of stakeholders, including renewable energy industry associations, project developers and nongovernmental organizations;

and

f. improving and proposing common greenhouse gas mitigation standards for financed projects. (Ex-Im settlement, 2009 p.3)

The importance of this settlement is in the leverage potential it contains. It makes a commitment to the support of cutting edge sustainable technology, it requires the ECA to monitor and disclose carbon emissions from the projects it supports and it moves Ex-Im to a leadership role within the OECD on climate. Critically, from the point of view of political risk the settlement involves an agency with a critical role in shaping the trajectory of economic growth both in the US and more broadly.
Of course, there are limits here. The impact of such a settlement will only be clear over time and the implementation of the settlement – and the new carbon policy that resulted from it will need to be monitored closely. Further, the initiative cannot be considered independently either from the socio-cultural concerns discussed above, or from the issue of conflict between climate and other environmental impacts. Yet, what it does demonstrate is the potential for change within the financing of economic growth and as such deserves critical attention.

**CONCLUSIONS**

Close attention to the regulation of reward is an area ripe with potential in re-orienting business activity in a more ecologically sustainable direction. Powerful rewards are found in the form of government support for exporters, including the Export Credit Agencies who assist local business in their export aspirations. As providers of ‘rewards’ ECAs have the capacity to play a leadership role in prompting the change required in local economies and international trade towards sustainability. Australia’s ECA EFIC has made limited progress in this regards, with little indication that they are supporting cutting edge technology with a commitment to low – and ideally zero – carbon emission technology. Ex-Im in the US, prompted by lawsuits brought by environmental NGOs provides greater room for optimism and hopefully provides an example which Australia might follow.

But, the risk challenge of shifting to environmentally sustainable governance requires attention to more than prompting the development of low carbon technology. EFIC support for the PNG LNG project highlights the potential for conflict between climate and other environmental imperatives. Further, the socio-cultural risk challenges are considerable – in particular where technologies contain the potential to exacerbate local conflict. Ultimately, the political risk challenge in institutionalising green growth remains acute. ECAs such as EFIC remain focussed on traditional drivers of economic growth as the basis for funding. Nonetheless, as long as climate goals remain consistent with growth, and with sufficient prompting by civil society, there is some reason to expect that ECA leadership in the area of ecological sustainability might grow. However, should growth be seen as incompatible with sustainability and absolute decoupling of emissions from economic growth impossible then significantly greater political challenges lie ahead not only in the tension generated in the business government relationship, but also in terms of socio-cultural risk and social stability more generally.

**REFERENCES**


OECD (n.d.-a) 'The Participants to the Export Credit Arrangement' available at http://www.oecd.org/document/29/0,3746,en_2649_34169_1844765_1_1_1_1,00.html accessed February 23, 2011.

OECD (n.d.-b) 'Trade and Agriculture Directorate: Export Credits': available at http://www.oecd.org/about/0,3347,en_2649_34169_1_1_1_1_1_1_1,00.html accessed February 23, 2011.

Organisation for Economic Co-operation and Development see OECD (n.d. -a) and n.d. -b)


Acts Cited:

Environment Protection and Biodiversity Conservation Act (1999) Cth