

September 2003

# EXPORT CREDIT AGENCIES

## Movement Toward Common Environmental Guidelines, but National Differences Remain



G A O

Accountability \* Integrity \* Reliability



Highlights of [GAO-03-1093](#), a report to congressional requesters

# EXPORT CREDIT AGENCIES

## Movement Toward Common Environmental Guidelines, but National Differences Remain

### Why GAO Did This Study

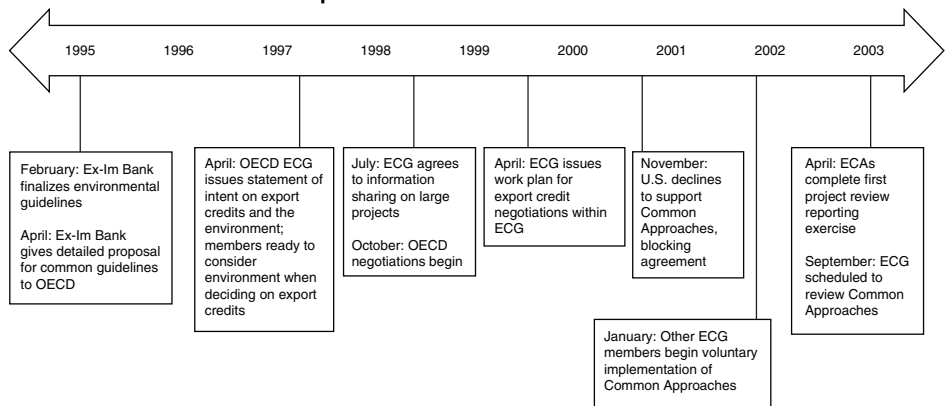
Export credit agencies (ECA) are responsible for providing billions of dollars worth of support for large-scale industrial projects annually, but until recently most ECAs did not formally review the environmental impacts of these projects. The United States, whose Export-Import Bank began using environmental guidelines in 1995, pushed for negotiations on common ECA environmental guidelines at the Organization for Economic Cooperation and Development (OECD). The OECD negotiations halted in 2001 because the United States believed that the results, called the Common Approaches, were insufficient. The remaining OECD members then pledged to voluntarily implement the Common Approaches. In response to congressional interest in ECA environmental guidelines, GAO assessed (1) the level of convergence among OECD members and the prospects for further advancement and (2) what impacts such guidelines may have on U.S. exports.

### What GAO Found

Since OECD negotiations began, members have made progress in developing environmental guidelines for their ECAs and are moving toward common environmental review practices. However, important differences remain. Having agreed to voluntarily implement the Common Approaches beginning in 2002, many OECD members adopted similar basic procedures for reviewing sensitive projects. However, OECD members' guidelines and practices differ in areas where the United States believes it has among the more advanced policies, including which technical standards ECAs use to review projects and the extent to which environmental impact information is publicly disclosed. Although OECD members are considering revising the Common Approaches in 2003, the United States is unlikely to achieve all of its original negotiating objectives because of the desire by some OECD members to gain more experience with the guidelines before renegotiating them and the reluctance of other members to take any steps that might be perceived as having a negative effect on the competitiveness of their exporters.

There is limited evidence that the Export-Import Bank's environmental guidelines have affected U.S. exports, although the complexity of potential effects and the lack of information make identifying and quantifying impacts difficult. The evidence GAO reviewed indicates that impacts are likely to be concentrated in the energy sector. Most Export-Import Bank transactions do not require an environmental review because they are either short-term transactions, are in certain excluded sectors, or are not considered environmentally sensitive. Finally, while some businesses are more concerned about the impacts of environmental guidelines than others, their specific concerns are largely anecdotal and difficult to confirm.

**Milestones in Efforts to Develop Common Environmental Guidelines for ECAs**



Source: GAO.

[www.gao.gov/cgi-bin/getrpt?GAO-03-1093](http://www.gao.gov/cgi-bin/getrpt?GAO-03-1093)

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager, (202) 512-4347, [yagerl@gao.gov](mailto:yagerl@gao.gov).

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**Abbreviations**

ECA	Export Credit Agency
ECG	Working Party on Export Credits and Credit Guarantees
ECGD	Export Credit Guarantee Department
EDC	Export Development Canada
EIA	Environmental Impact Assessment
G-8	Group of Eight
JBIC	Japan Bank for International Cooperation
NGO	nongovernmental organization
OECD	Organization for Economic Cooperation and Development
OND	Office National du Dueroire
SDR	Special Drawing Rights

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United States General Accounting Office  
Washington, D.C. 20548

September 10, 2003

The Honorable Henry J. Hyde  
Chairman  
Committee on International Relations

The Honorable Peter T. King  
Chairman  
Subcommittee on Domestic and International  
Monetary Policy, Trade, and Technology  
Committee on Financial Services

The Honorable Doug Bereuter  
Chairman  
Subcommittee on Europe  
Committee on International Relations  
House of Representatives

Concerns about the environmental impacts of large-scale industrial projects in developing countries have led international development agencies such as the World Bank to implement guidelines to minimize environmental damage. Until recently, however, the world's industrialized nations have not required that their export credit agencies (ECA)<sup>1</sup> apply such policies to the projects they support. Since ECAs annually finance around \$60 billion in exports each year for medium- and long-term projects, environmental organizations have been pressuring industrialized nations to develop guidelines to review the environmental implications of export credit-sponsored projects. In 1995, in response to language in its revised charter, the Export-Import Bank of the United States (Ex-Im Bank) became the first ECA to implement guidelines incorporating environmental standards as part of the project review process.

To ensure that its exporters were not disadvantaged by environmental standards that other nations' exporters did not have to meet, the United States began an effort to establish common environmental guidelines for ECAs. Negotiations began at the Organization for Economic Cooperation

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<sup>1</sup>Export credit agencies are public institutions that provide official assistance in the form of government-backed loans, guarantees, and insurance to private corporations that do business abroad, particularly in the developing world.

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and Development (OECD) in 1999<sup>2</sup> but concluded without formal agreement at the end of 2001 due to U.S. objections. The United States was concerned that the negotiators' recommendations, formally called the Draft Recommendation on Common Approaches on Environment and Officially Supported Export Credits (Common Approaches) did not level the playing field for exporters. Specifically, the U.S. negotiators felt that the Common Approaches granted ECAs too much latitude in establishing guidelines and did not provide for sufficient public disclosure or explicit direction regarding which technical standards to use in the review process, such as those for allowable emissions. While the lack of consensus prevented the OECD from formally adopting the Common Approaches, most members nevertheless voluntarily agreed to abide by the terms of the most recent version of the Common Approaches. They also agreed to undertake a review of efforts to revise the Common Approaches by the end of 2003.

As a result of the potential impact of different ECA environmental requirements on U.S. exports, you asked us to assess (1) the achievements of the Common Approaches and the remaining differences among the OECD members, (2) the prospects for further advancement on common environmental guidelines for export credit agencies, and (3) the impact that environmental guidelines for export credit agencies may have on U.S. exports.

To meet these objectives, we reviewed documentation and interviewed knowledgeable officials from the departments of the Treasury and State and the Ex-Im Bank, the key U.S. agencies involved in export credit negotiations. We also traveled to Belgium, Canada, France, Germany, and the United Kingdom to interview senior government and ECA officials and OECD officials, and met with senior officials from the Japanese ECA in Washington. To evaluate the impact of environmental guidelines and regulations of ECAs on U.S. exports, we analyzed financing data and environmental assessments for 24 medium- and high-risk Ex-Im Bank projects. We supplemented this information with interviews with U.S. and foreign business representatives and nongovernmental organization representatives familiar with the environmental review process for both

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<sup>2</sup>The OECD is an organization of 30 industrialized countries, operating by consensus, that fosters dialogue among members to discuss, develop, and refine economic and social policies and provides an arena for setting rules when multilateral agreements are necessary.

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ECAs and multilateral development banks. (App. I provides detailed information on our scope and methodology.)

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## Results in Brief

ECAs have moved toward common environmental policies, but important differences remain. While the environmental guidelines of the Export-Import Bank are more specific than the Common Approaches, many OECD members are following similar basic procedures for reviewing environmentally sensitive projects. However, given the latitude permitted by the Common Approaches, there are differences in OECD member guidelines and practices, including which technical standards are used to review projects and the extent to which environmental impact information is publicly disclosed. For example, the French export credit agency recently developed its own technical standards for its three primary export sectors, including thermal power and hydroelectricity. In contrast, the German export credit agency guidelines require that projects meet host country environmental standards, and only call for further explanation if the host country standards are deemed significantly below other internationally recognized standards. With respect to public disclosure, while several OECD members are taking steps to provide environmental information on potential projects before project approval, as does the Export-Import Bank, some OECD members do not routinely disclose project information at any point, and some maintain that they are legally prohibited from doing so.

While OECD members are considering revising the Common Approaches, it will be challenging for OECD members to go beyond approving limited changes in the near term. The current version of the Common Approaches contains provisions for members to review their collective experience with environmental guidelines by the end of 2003. However, certain factors continue to make advancement difficult. For example, a number of OECD members prefer to gain more experience with environmental guidelines before renegotiating the Common Approaches, and some OECD countries are reluctant to take any steps that might be perceived as having a negative effect on the competitiveness of their exporters. While OECD members stated that they would like the United States to join the Common Approaches, the United States is unlikely to achieve all of its original negotiating objectives. Nevertheless, recent events, including an informal effort that environmental experts at export credit agencies undertook to share their experiences in applying standards to specific projects, may ultimately provide greater confidence to members about the benefits of

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having better defined technical standards. This could become the basis for a possible compromise on the Common Approaches.

There is limited evidence of the Export-Import Bank's environmental guidelines having affected U.S. exports, although the complexity of potential effects and the lack of information make identifying and quantifying impacts difficult. The vast majority of transactions authorized by the Export-Import Bank do not require an environmental review because they are either short-term transactions, are in certain excluded sectors such as aircraft, or are not considered to be potentially environmentally sensitive. Most projects that receive a full review are in the energy sector, largely because of the financing structure of many energy projects. For the types of projects that are subject to environmental review, available information does not show significant impacts, but assessments are difficult for several reasons. Trends in Export-Import Bank financing to sectors where environmental reviews have been concentrated do not show clear changes since the guidelines have been in place. In addition, available data on applications and approvals do not capture decisions early in the applications process or through informal channels and cannot account for other factors that affect the competitiveness of U.S. exports. Finally, while some businesses are more concerned about the impacts of environmental guidelines than others, their specific concerns are largely anecdotal and difficult to confirm.

The Department of the Treasury and Ex-Im Bank provided written comments on a draft of this report, which are reprinted in appendixes V and VI, respectively. The agencies generally agreed with the contents of the report and also provided technical comments that have been incorporated into this report as appropriate.

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## Background

Between 1999 and 2001, the OECD member nations negotiated environmental policy framework for their ECAs. (See fig. 1.) With the exception of the United States,<sup>3</sup> OECD members agreed in November 2001 to voluntarily implement a version of this framework, known as the

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<sup>3</sup>Turkey agreed to adhere to all provisions of the Common Approaches with the exception of a provision in Annex I of the Common Approaches dealing with locations significant to ethnic groups.



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Common Approaches. This process of negotiation followed a 1997 communiqué from the Group of Eight (G-8)<sup>4</sup> that indicated a strong interest in negotiating common environmental guidelines for ECAs. At the 1999 G-8 summit, the heads of state issued a second communiqué stating that they hoped for agreement within the OECD by their 2001 summit, a deadline the G-8 reiterated the following year.

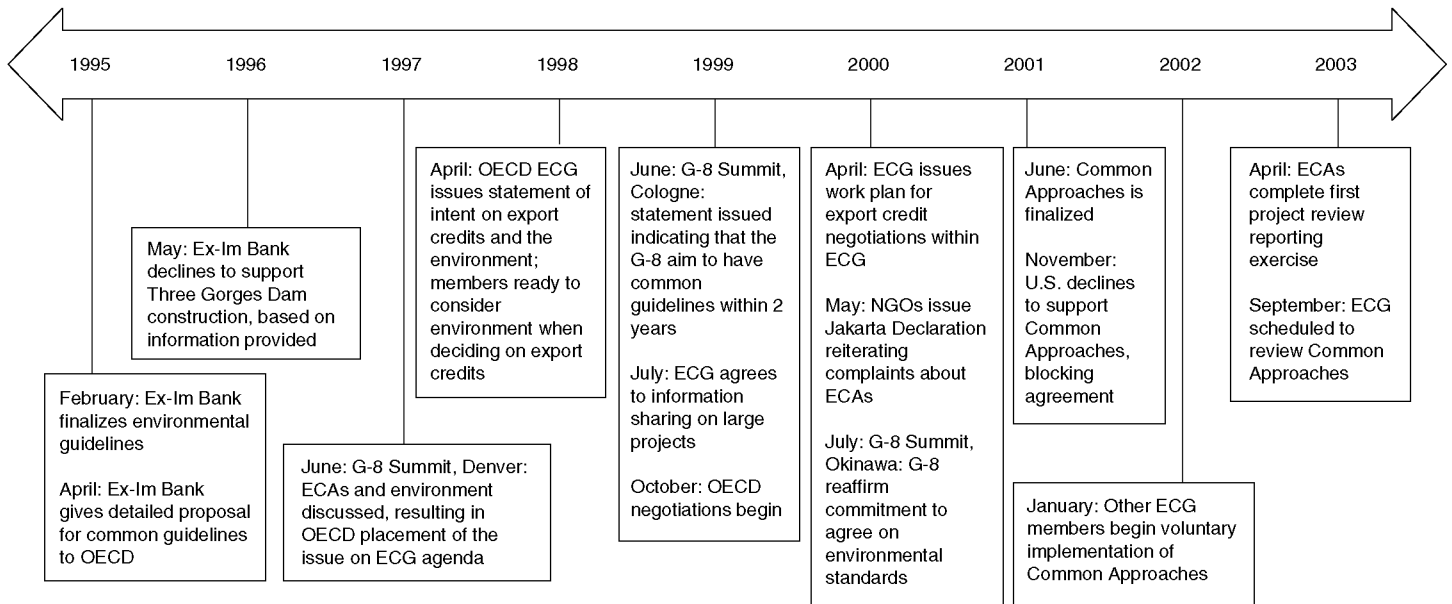
The United States led the effort to regularly place common ECA environmental procedures on the G-8 agenda. The United States sought to promote uniform standards because it was concerned about unequal export market conditions and growing concern from nongovernmental organizations (NGO) that ECA-funded projects had the potential to cause significant environmental harm. However, the most current version of the Common Approaches required neither public disclosure of project information nor establishment of a single set of technical standards. Because the United States believed that these provisions were essential, it objected and said it would block the agreement if it were sent before the OECD Council for approval. Twenty-eight of 29 OECD members of the Working Party on Export Credits and Credit Guarantees (ECG)<sup>5</sup> subsequently opted to voluntarily adhere to the Common Approaches, thus implementing the framework without a formal decision. Application of the Common Approaches began on January 1, 2002. (See app. II for a list of OECD participants and ECG members that are implementing the Common Approaches.)

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<sup>4</sup>The G-8 is a group of industrialized countries whose heads of state meet annually to discuss economic and political issues.

<sup>5</sup>Twenty-nine of the 30 OECD members participate in the ECG, a forum to review export credit issues; this is the setting in which the negotiations on environmental standards for ECAs took place.

**Figure 1: Milestones in Efforts to Develop Common Environmental Guidelines for ECAs**



Source: GAO.

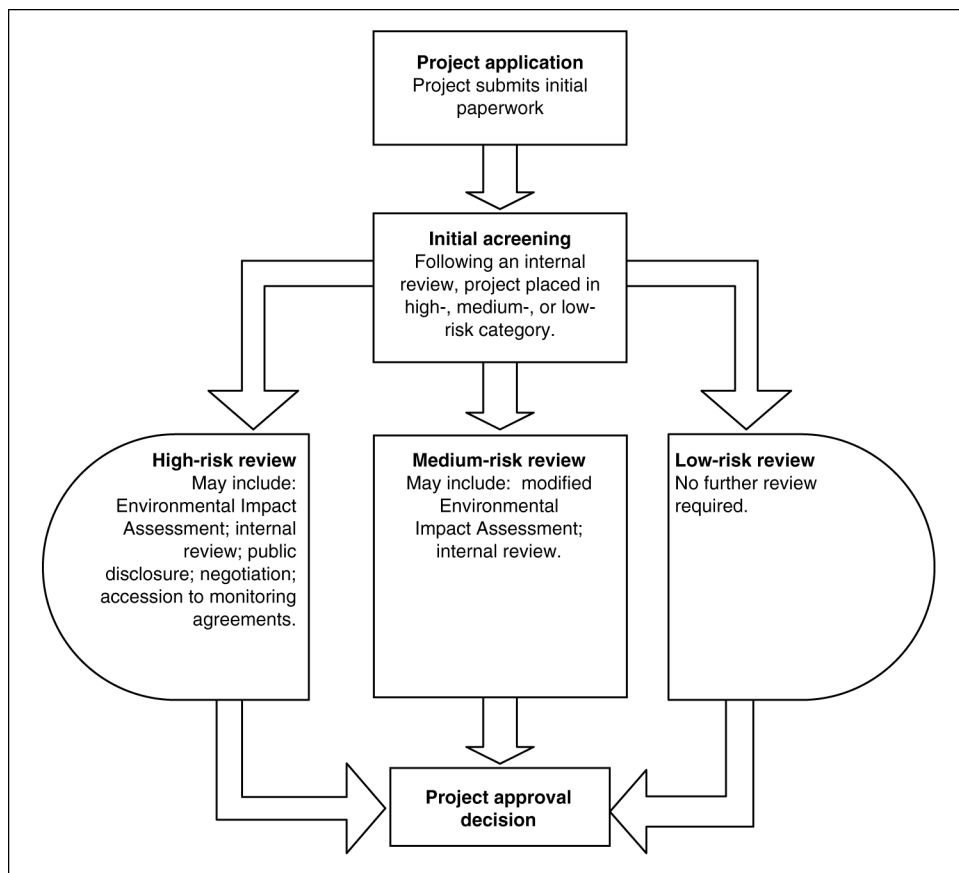
Some ECAs have used environmental guidelines from the World Bank Group<sup>6</sup> as a model for the development of environmental procedures and standards to use in evaluating projects. The environmental guidelines of Ex-Im Bank, for example, were developed using World Bank standards as a reference point.<sup>7</sup> While the environmental review policies of different organizations within the World Bank Group vary somewhat, they generally follow a similar screening and categorization process (see fig. 2). The World Bank’s environmental policies include evaluation and technical standards, such as those for emissions, which are laid out in the Pollution

<sup>6</sup>The World Bank Group is made up of the original “World Bank”—the International Bank for Reconstruction and Development—as well as the International Development Association, the International Finance Corporation, the Multilateral Investment Guarantee Agency, and the International Center for Settlement of Investment Disputes.

<sup>7</sup>Ex-Im Bank’s environmental guidelines were last revised in April 1998. The current guidelines will remain in effect until March 31, 2004, having been extended several times. According to Ex-Im Bank officials, some aspects of the guidelines need to be updated, although a specific time frame for that has not been announced due to uncertainty with regard to the final outcome of negotiations on the Common Approaches.

Prevention and Abatement Handbook. It also has a set of qualitative environmental and social standards, known as safeguard policies. These outline broad project and evaluation expectations, including guidelines on involuntary movement of peoples, impacts on cultural property, and conservation of natural habitats.

**Figure 2: Generic Flow Chart of Basic Environmental Review Framework**



Source: GAO.

Representatives of both the business community and the environmental NGO community have expressed considerable interest in the issue of environmental review procedures for ECAs, but for different reasons. Some businesses in the United States are concerned that if Ex-Im Bank maintains environmental standards more stringent than the standards of

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some competitor ECAs, the additional project review and mitigation costs may hurt U.S. exports. Businesses in other OECD countries are also concerned that disclosure requirements, which the United States proposed in OECD negotiations, will make sensitive business information public. In contrast, environmental NGOs in numerous countries have become interested in ECA environmental review standards as a result of actual or proposed ECA funding of large potentially environmentally harmful projects as the Three Gorges Dam in China, the Chad-Cameroon oil pipeline, and the Camisea gas field development project in Peru. (See app. III for descriptions of selected ECA projects.) NGO representatives stated that ECAs, as public entities, should provide members of the public with the opportunity to provide input on projects that their governments are supporting. A number of these NGOs have joined in a campaign to change ECA practices to include strong review standards and open disclosure policies.<sup>8</sup>

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## Common Approaches Offers Environmental Policy Framework, but National Differences Remain

While most OECD members have adopted a common environmental policy framework through the Common Approaches, some notable differences remain in their ECA environmental review procedures and policies. Because the Common Approaches is only a framework, it allows important differences in members' national policies in certain key areas, such as the application of technical standards and the disclosure of project-specific information.

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## Ex-Im Bank's Environmental Guidelines Are More Specific than the Common Approaches

Ex-Im Bank guidelines provide much more specific detail than the Common Approaches framework (see table 1). Ex-Im Bank guidelines clearly describe which types of applications must undergo environmental review. For those transactions requiring review, Ex-Im Bank guidelines contain nine detailed sector tables delineating specific environmental requirements.<sup>9</sup> Ex-Im Bank guidelines also provide for a public disclosure period prior to a final decision by its Board of Directors. During this period, it lists the name and location of projects which will be subject to an environmental review and makes certain environmental information

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<sup>8</sup>For more information about this campaign, see <http://www.eca-watch.org/>.

<sup>9</sup>The Ex-Im Bank's environmental tables address the following areas: air quality; water use and quality; waste management; natural hazards; ecology; socioeconomic and sociocultural framework; and noise.

available upon request. In contrast, the Common Approaches is a framework that allows for variations in project review specifics. The Common Approaches framework differs from Ex-Im Bank guidelines in that it does not specify the use of a single set of technical standards, does not establish a set review procedure, and does not require public disclosure of project information prior to final funding decisions. Adherents to the Common Approaches are, however, expected to assess projects using specific standards selected by the ECA involved, categorize projects according to environmental risk level, and annually report to the OECD information on environmentally sensitive projects.

**Table 1: Comparison of Environmental Review Procedures for the Export-Import Bank of the United States and the OECD's Common Approaches**

<b>Stages in environmental review process</b>	<b>Export-Import Bank of the United States</b>	<b>OECD's Common Approaches</b>
Initial application and screening process	Specifies that projects either exceeding a \$10 million threshold or exceeding a 7-year repayment period must submit a screening document containing environmental information	Broadly outlines the goals of a screening process but does not specify how the process should proceed. Expects that members will screen projects exceeding 10 million special drawing rights <sup>a</sup>
Categorization	Places projects in three classes of environmental review: high, medium, and low	Places projects in three classes of environmental review: high, medium, and low
Technical standards for evaluation	Utilizes preestablished technical standards against which projects are evaluated	Allows individual members to determine which standards are applied to projects. Members may establish their own standards or draw upon other organizations' or countries' preestablished standards
Project disclosure	Requires that some project information, including the environmental impact assessment, be made public prior to funding decisions	Encourages members to make project information public but makes no disclosure requirement prior to funding decisions
Final approval	Requires the Bank's Board of Directors to make final funding decisions for long-term projects	Does not specify a process for making final funding decisions

Source: GAO.

Note: Analysis based on Ex-Im Bank's environmental guidelines and the OECD's Common Approaches as outlined in Revision 6.

<sup>a</sup>Special Drawing Rights is a standardized unit of money calculated by the International Monetary Fund and not associated with a particular currency. As of July 24, 2003, \$1 was equal to 0.713 special drawing rights.

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## Framework Has Promoted Some Convergence of ECA Environmental Policies

When the OECD members developed the Common Approaches, they effectively established a framework to create or update their own ECA environmental review policies. Most OECD members have taken action to implement the Common Approaches' provisions. Some members, including Belgium, Greece, Hungary, and Portugal, did not previously have any environmental review practices but since adopting the Common Approaches have taken steps to create them. These include hiring staff to review projects for environmental concerns or training current staff to do so and implementing procedures for reviewing potential projects.

Many of the members that had environmental policies in place before adopting the Common Approaches have revised those policies since January 2002 to adhere to the Common Approaches. For example, as shown in appendix IV, ECAs in the six countries we visited have made revisions based on the provisions of the Common Approaches. Other OECD members have made similar revisions. For example, Norway introduced an environmental review policy in 1998 but reviewed it in 2003 to be sure it conformed to the Common Approaches.

Most OECD members are now following similar basic procedures for reviewing sensitive projects. For example, most of the countries we visited require applicants for financing to complete a questionnaire regarding the potential environmental impacts of their proposed project, which the ECA uses to categorize the project. Projects likely to have significant adverse environmental impacts are placed in category A, while projects with questionable environmental impacts are classified as category B. Most ECAs place projects with little or no potential environmental impact in category C. Most ECAs require applicants to complete an environmental impact assessment<sup>10</sup> if their projects are placed in category A (high risk of environmental impact).

ECA projects may be approved despite adverse environmental impacts. Each ECA we visited relies on the judgment of its experts to evaluate the overall environmental impact of projects. Moreover, several ECAs,

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<sup>10</sup>An environmental impact assessment is a report that evaluates a project's potential environmental risks and impacts, examines project alternatives, identifies potential project improvements that could minimize or mitigate any adverse impacts, and suggests mitigation and management measures that should be put in place to address potential impacts. Generally, the applicant contracts with independent experts to carry out the environmental impact assessment.

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including Ex-Im Bank, allow their Boards to approve projects, notwithstanding the results of the environmental review. For example, Canada's ECA cites grounds where it could approve projects with adverse impacts under certain circumstances, including if it believes that the project represents an opportunity to improve environmental conditions in the host country or transfer environmentally sound technology and services.

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### Differences Exist in OECD Members' Specific Environmental Guidelines

Despite the commonalities among OECD members' environmental impact review systems, differences exist in how ECAs review potential projects and report on projects they undertake. These differences involve the application of technical standards and the disclosure of certain information.

### Technical Standards Vary but Have Common Elements

OECD members vary in terms of the technical standards they use to assess environmental impacts. We found that it is common for members to use World Bank technical standards for their reviews. For example, most countries review projects for compliance with World Bank technical standards regarding air quality, greenhouse gas emissions, water consumption, and waste management (see table 2 for selected examples of air emissions and water quality not-to-exceed standards).

**Table 2: Air Emissions and Effluent Discharge Standards for ECA Project Review of Steam Driven Thermal Power Plants**

<b>Standards</b>	<b>World Bank</b>	<b>Export Import Bank of the United States<sup>a</sup></b>	<b>Coface (France)</b>	<b>Hermes (Germany)</b>
<b>Air emissions standards</b>				
Particulate matter (mg/Nm <sup>3</sup> )	50 (for units ≥ 50 MWe input)  100 (for units < 50 MWe input)	100 (for units > 50 MWe input)  100 (for units > 2.9 and < 50 MWe input)	50 (for units > 50 MWe input)	Varies according to project location and applicable host country standards.  References World Bank and other international standards as benchmarks.
Nitrogen oxides as NO <sub>2</sub> Fired using:				
Coal or other solid fuel	260	260	260	
Oil or other liquid fuel	130	130	130	
Gaseous fuel (ng/J)	86	86	86	
Sulfur dioxide	2,000 (mg/Nm <sup>3</sup> ) and 100 metric tons/day for plants ≤ 500 MWe <sup>b</sup>	100 metric tons/day <sup>c</sup>	2,000 (mg/Nm <sup>3</sup> ) and 100 metric tons/day for plants ≤ 500 MWe <sup>b</sup>	
<b>Effluent discharge standards</b>				
PH	6-9	6-9	6-9	Varies according to project location and applicable host country standards.
Oil and grease (mg/l)	10	20	10	
<b>Total suspended solids (mg/l)</b>	<b>50</b>	<b>60</b>	<b>50</b>	
Temperature <sup>d</sup> (C)	< 3°	+/- 5° (< 3° if receiving waters > 28°)	< 3°	References World Bank and other international standards as benchmarks.
Metals <sup>e</sup> (mg/l)	Total -10 Cadmium -0.1 Chromium -0.5 Copper -0.5 Iron -1.0 Zinc -1.0	Total -10	Chromium -0.5 Copper -0.5 Iron -1.0 Zinc -1.0	
<b>Total residual chlorine</b>	<b>0.2</b>	<b>0.5</b>		

Source: GAO analysis based on published environmental guidelines for relevant organizations.

Legend:

mg/Nm<sup>3</sup> = milligrams per normal cubic meter.

MWe = megawatts electricity.

ng/J = nanograms per joule of heat input.

mg/l = milligrams per liter.

<sup>a</sup>Ex-Im Bank's standards were drawn from the 1995 version of World Bank guidelines; the World Bank guidelines were updated in 1998.

<sup>b</sup>Plants larger than 500 MWe may emit an additional 0.10 tons per day for each MWe of capacity beyond 500 MWe.



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<sup>c</sup>Not applicable to diesel driven plants.

<sup>d</sup>Indicates effluent should result in a temperature change of no more than the degrees indicated; from the ambient temperature of receiving water at the edge of the zone where initial mixing and dilution take place.

<sup>e</sup>Values shown for chromium represent total chromium.

While most members use World Bank technical standards, many also look to standards that other organizations have established. The World Bank has not updated its technical standards since 1998, and some officials stated that they prefer standards that are more up to date. For example, several ECA officials said they use World Bank standards in the majority of cases; but in some situations, standards set by the World Health Organization or the European Union are more appropriate or current. Canadian ECA officials reported that they use standards of the World Bank, World Health Organization, Canada, and regional development banks as benchmarks in their reviews. The French ECA established its own set of technical standards for three sectors. These sectors involve the most environmentally sensitive projects and represent a large portion of France's ECA-financed exports: conventional thermal power plants, large dams, and oil and gas projects. The standards contain a minimum set of criteria, which is largely linked to World Bank standards. In addition, French ECA officials said they encourage but do not require applicants to meet best practice standards, based on the best available technology or practices within the project's sector.

The German ECA, in contrast, does not rely on a defined set of environmental standards. It requires that all projects meet the environmental standards of the country in which the project is being constructed. German ECA officials stated that if the host country's standards are not comparable with internationally recognized standards or German national environmental standards, additional information is required before approval.

## Some ECAs Consider Social Impacts

ECAs do not commonly follow the World Bank safeguard policies on social impacts. During the OECD negotiations there was no consensus on how to account for these impacts, so they are not a part of the Common Approaches. However, some ECAs have taken steps to include considerations for social impacts in their environmental standards. For example, the British ECA requires applicants to answer questions about social and human rights impacts during the screening process. Projects that will have social impacts must submit a social impact assessment or some mitigation plan to address those potential impacts. The Japanese ECA has also included provisions on social impacts, including impacts on

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indigenous peoples, in its environmental policy. Ex-Im Bank also considers social impacts in its reviews and has specific guidelines in two of its nine sector tables (forestry operations and hydropower and water resources management).

### Disclosure Policies Differ across ECAs

ECA policies regarding public disclosure of project information vary. Some OECD members do not routinely disclose environmental or other project information, some disclose information after project approval, and others disclose before they make approval decisions. Many experts stated that, although ECAs are publicly financed, they are commonly less open about their activities than other government agencies because of their private sector orientation. Some countries such as Belgium, Germany, Portugal, and Spain cite national laws and regulations prohibiting disclosure of some information regarding export credit transactions as a barrier to disclosure of project information. Several ECAs provide information to the public, but only after an export credit transaction has been signed. For example, Canada and France are willing to make environmental information about their projects available to the public after the transactions have been approved.

Some ECAs are taking steps to provide environmental information on projects to the public before making a decision on whether to approve the project for financing. This is known as “ex ante” disclosure, the policy practiced by the United States,<sup>11</sup> and often involves a public comment period in which outside parties are invited to submit comments on projects that will then be incorporated into the ECA’s environmental review. For example, although it has a law restricting disclosure of project-specific information without consent from the financing applicant, the British ECA announced in April 2003 that it would publish information on its Web site about the environmental impacts of its most sensitive projects before making a financing decision. Officials from the British ECA said they made this policy change because they understand that environmental information often becomes public through third parties anyway. In addition, they believe that full disclosure of environmental information is an appropriate policy. They also cited pressure from nongovernmental organizations as a factor in their policy change.

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<sup>11</sup>Ex-Im Bank officials emphasize that the Bank does not release confidential business information. Its ex ante disclosure includes project description and location for medium review projects, and the project’s environmental impact assessment for full review projects, with any confidential information removed.

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Japan and Australia have made a similar commitment to disclosing environmental information about their most sensitive projects before finalizing an export credit agreement, with consent from their exporters. For example, following the environmental screening process, Japan's ECA discloses the project name, location, and sector, and reason for its category placement. In addition, for projects that are more sensitive, the ECA publishes on its Web site the status of major environmental and social documents prepared by or on behalf of the exporter, such as environmental impact statements, and makes these documents available to the public. The Japanese ECA also says that it encourages input from concerned organizations or stakeholders regarding the environmental impacts of projects under review. Australia's ECA has also adopted an ex ante disclosure policy. It provides for a 45-day public consultation period for accepting and reviewing comments from outside parties prior to final project approval.

#### Other Differences Remain in Policy Implementation

In addition to the differences in their use of technical standards and disclosure policies, ECAs differ in implementing their environmental policies, specifically their criteria for categorizing and defining projects. In instances where several ECAs provide financing for a single project, they might place the project in different categories. A mining project, for example, might be categorized as high risk (category A) in one country, and medium risk (category B) in another. The Common Approaches has no prescriptions requiring countries to place specific types of projects in particular categories, thus allowing categorization to be a subjective activity that depends on the opinion of the official reviewing the project. In addition, the very nature of how to define a project can be in dispute. For example, officials from one ECA described a situation where another ECA treated a project with multiple components as a single project for categorization purposes, while they categorized each component separately.

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### Prospects Mixed for Further Advancement on Common Environmental Guidelines for ECAs

OECD members are currently reviewing their efforts to voluntarily abide by the terms of the Common Approaches and may propose an alternative version by the end of 2003. However, a number of factors, including the resistance of some of the participants to certain proposed policies, present challenges to revising the Common Approaches. Nevertheless, several developments outside the formal OECD negotiations, including a series of meetings between ECA environmental experts, may lend some momentum to advancing the Common Approaches.

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## OECD Members Committed to Review and Revise the Common Approaches

OECD members are in the process of reviewing the Common Approaches. The most recent version of the Common Approaches contains a provision stating that the ECG will review all aspects of the draft to enhance it. Participants stated this is typical of OECD multilateral negotiations, which often begin with general principles and gradually advance to a more detailed, comprehensive agreement. In this regard, officials from most of the countries we visited agreed to voluntarily comply with the terms of the Common Approaches. They stated that the most recent version is a good first step toward achieving a common approach to environmental standards for ECAs. For example, one official stated that, given the inexperience of many ECAs applying environmental standards, it would take several years for OECD members to accept guidelines similar to the Ex-Im Bank's.

A key aspect of the review process for the Common Approaches is the annual reporting among members of information about sensitive projects. During the negotiations, most members would not support prior disclosure of projects, which would have allowed the public to evaluate the application of environmental standards before projects are approved. As a compromise, members agreed to report annually on sensitive projects to evaluate how countries are abiding by their voluntary obligations. The Common Approaches states that members shall provide certain details about projects that members classified as either category A or B projects exceeding 10 million special drawing rights. The required details include a brief description of the project, its sector, the type of environmental review conducted, and the standards or benchmarks used in the review. Some ECA officials stated that the quality of reporting was not uniform across ECAs. They added that some of the countries have been very forthcoming with information but others have not. For example, in several instances the project's host country was not identified, making it difficult to assess the technical standards used to review the project.

Several key meetings in 2003 will give ECG members an opportunity to review and potentially revise the initial version of the Common Approaches. In April, ECG members discussed the results of the first annual report and agreed to provide recommendations for modifications to the Common Approaches to the ECG Chair by July 2003. The Chair plans to summarize these recommendations, which ECG members will then discuss in September. The final meeting in November 2003 may then serve as the venue for agreement on a revision of the Common Approaches that can be put to the OECD Council for a formal decision, according to OECD officials.

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## Near-Term Changes to Common Approaches May Be Limited

Any revisions or enhancements to the Common Approaches during 2003 may be limited because of the nature of the OECD negotiating process and the resistance of many members to some of the more controversial aspects of environmental guidelines. The United States is therefore unlikely to fully achieve its original negotiating objectives, although most OECD members would like the United States to accept the Common Approaches as a formal OECD agreement.

The institutional framework of the OECD makes dramatic changes to the Common Approaches unlikely. The OECD commonly uses a combination of dialogue, peer review, and other forms of noncoercive peer pressure to encourage members to coordinate policies. In addition, OECD committees operate by consensus. Controversial topics can therefore be blocked by any single member, as the United States did with the Common Approaches. While such blocking is considered extreme and rare, according to OECD officials, it ensures that OECD policies evolve gradually.

Several specific factors make it difficult to go beyond incremental changes to the Common Approaches, particularly in areas of interest to the United States. First, while the United States has sought to negotiate a firm set of technical standards that all OECD members would have to use in their reviews, most ECA officials we spoke with prefer to apply a flexible approach to technical standards. Another, more difficult, obstacle to surmount is the resistance to disclosing project information. While the United States has pushed for ex ante disclosure of project information, other ECA members are either unable or unwilling to do this. In addition, some other ECA members are unwilling to adopt disclosure practices that are significantly advanced over their major ECA competitors. For example, the Canadian ECA pulled back a proposed ex ante disclosure policy once it was clear that the Common Approaches would not require such a policy, out of concern that the competitiveness of Canadian exporters might be compromised.

A final impediment to achieving a more than incremental advance in the Common Approaches is the effect of competing pressure on ECAs by both public interest and business groups. OECD members' positions on environmental standards reflect an internal balance achieved in response to domestic pressure. While nongovernmental organizations in some OECD countries were successful in getting their governments to push for the start of negotiations on environmental standards for ECAs, they have been less successful in achieving their objectives in the negotiations. Nongovernmental organizations in all the countries we visited are

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uniformly displeased with the results of the Common Approaches to date and are pressing for a broader Common Approaches that includes human rights, labor, and other social issues as part of the review process. However, business groups we met with are resistant to expanding the scope of the Common Approaches. While some ECAs, such as those of the United Kingdom and Japan, may unilaterally take up these social issues, most countries in our sample are not yet ready to consider adopting them. This reluctance occurs primarily because business concerns are considered of paramount importance to legislators at this point, according to several experts.

It will be difficult for the United States to fully achieve the objectives it sought at the conclusion of the Common Approaches negotiations in 2001. The United States no longer has the level of influence it had at the start of the negotiations. This is because the United States did not join the Common Approaches, which remains a source of resentment, and Ex-Im Bank no longer has the unique environmental expertise that it once did. Nevertheless, OECD members see benefits if the United States signs an OECD agreement. All the ECG members we met with stated that they would like to see the United States accept the OECD's Common Approaches. Some of these officials believe that a formal OECD agreement will provide ECAs with a stronger basis for improvements and convergence. For example, some officials note that a multilateral agreement permits countries to bring ministerial pressure to bear on issues. This is not possible under the current framework, which is supported under a voluntary agreement.

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## Recent Events May Provide Impetus to Negotiations

Several recent events, including an informal effort by ECG environmental experts, may lend momentum to the negotiations. At the negotiations' outset, many ECG members did not have environmental guidelines and were reticent to negotiate on unfamiliar technical issues. However, as OECD members become more familiar with the application of environmental standards for ECAs, the likelihood of compromise increases, according to a number of the participants. Participants view a recent effort to share information among ECAs as a particularly promising vehicle for increasing their familiarity with technical aspects of environmental reviews. After the cessation of the negotiations in 2001, some of the members that had environmental experts (practitioners) in-house began to meet informally to discuss technical issues that were not

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addressed during the negotiations. These included issues such as defining a “greenfield site,”<sup>12</sup> applying technical standards in specific instances, and more generally defining a project for the purpose of environmental review. To date, three such practitioners’ meetings have been held, with broad participation by ECG members.

While the practitioners’ meetings are an unexpected consequence of the conclusion of the negotiations, ECA officials we spoke with stated that the meetings may help advance the Common Approaches. First, they have been very useful in giving practical information on technical issues to ECG members that have only recently adopted environmental guidelines. In addition, they may provide helpful information to the negotiators on technical issues. For example, the practitioners have recently created four subgroups to focus on issues in specific sectors that will report back to the ECG on their findings.<sup>13</sup> Finally, the practitioners may also provide members with some assurance that the terms of the Common Approaches are being met. As one official told us, the practitioners can ask specific questions of one another about how environmental standards were applied to specific projects. This information would not otherwise be available through the formal annual reporting process.

Another development that may lend some momentum to advancement in the Common Approaches is the commercial banking sector. Recently, 15 of the world’s leading project finance institutions agreed to apply a set of principles incorporating environmental reviews of their projects.<sup>14</sup> These principles, called the Equator Principles, set out provisions calling for the application of World Bank technical standards in the Pollution Prevention and Abatement Handbook and the International Finance Corporation safeguard policies standards for projects costing \$50 million or more and for which project sponsors are seeking direct lending from the banks involved. The banks that follow the Equator Principles pledged that they will screen and categorize projects based on environmental risk. They also will require environmental assessments demonstrating compliance with

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<sup>12</sup>“Greenfield site” generally refers to an area of land on which there previously has not been any commercial development beyond that of agriculture.

<sup>13</sup>The subgroups are hydroelectricity, oil and gas, power, and pulp and paper.

<sup>14</sup>The 15 banks that have signed on to the Equator Principles are ABN AMRO Bank NV, Barclays Bank PLC, Citigroup Inc., Credit Lyonnais, Credit Suisse Group, Dresdner Bank, HSBC Group, HVB Group, ING Group, MCC, Rabobank, Royal Bank of Canada, Royal Bank of Scotland, WestLB AG, and Westpac Banking Corporation.

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the World Bank guidelines for projects with high or medium environmental or social risk. While adherence to the Equator Principles is voluntary, it indicates a growing understanding in the commercial banking sector of the importance of assessing environmental risk along with credit risk for these types of projects. Some officials believe that this is evidence that the business community is increasingly accepting the environmental assessment process as the norm for large development projects. This development may exert a positive influence on the ECA negotiations.

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## Limited Evidence of Economic Impact, but Assessment Difficult for Several Reasons

There is limited evidence that Ex-Im Bank's environmental guidelines have affected U.S. exports, although the complexity of potential effects and the lack of information make identifying and quantifying impacts difficult. The evidence we reviewed indicates that any impacts are likely to be concentrated in certain areas, especially the energy sector. The majority of projects authorized by Ex-Im Bank do not require significant environmental review, and most projects in the full environmental review category are in the energy sector. Almost all are project finance cases. Trends in Ex-Im Bank financing to sectors where environmental reviews have been concentrated do not show clear impacts, and available data on applications and approvals are not adequate to capture decisions early in the applications process or through informal channels. Finally, we found that the evidence of business impacts is largely anecdotal and lack of data makes objective quantitative analysis difficult.

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## Ex-Im Bank's Environmental Reviews Have Been Concentrated in Certain Sectors

A substantial portion of Ex-Im Bank financing does not require significant environmental review. Ex-Im Bank's environmental reviews are concentrated in the energy sector, largely because of the financing structure of many energy projects. Energy sector projects are expected to be of continuing importance to Ex-Im Bank because of rising energy demand in developing countries.

Only about one third of long-term Ex-Im Bank financing undergoes an environmental review after initial screening. Out of 522 long-term transactions authorized by Ex-Im Bank from October 1995 to May 2003, 42 were subject to a full environmental review,<sup>15</sup> and 181 were subject to a

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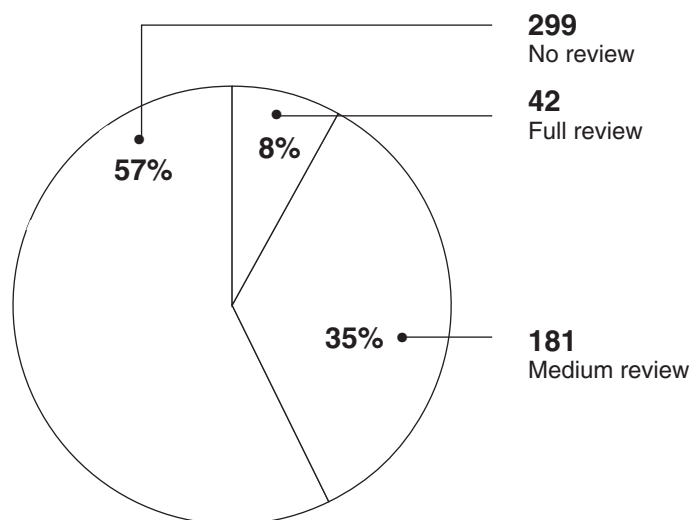
<sup>15</sup>Four of the 42 transactions were nuclear projects, which are subject to separate environmental procedures and guidelines.



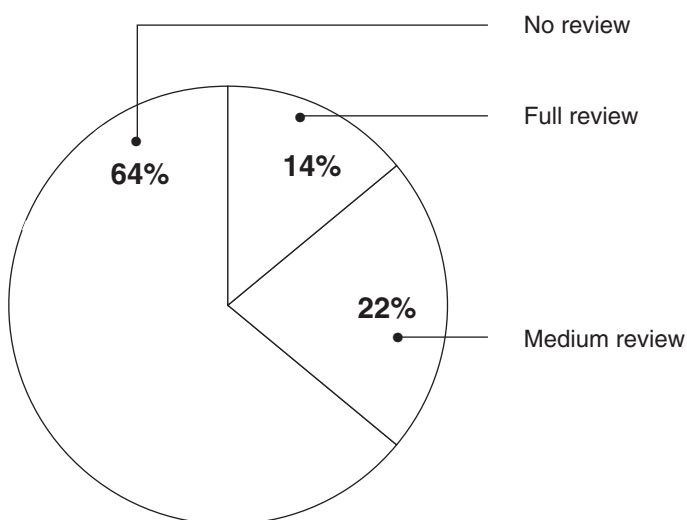
medium review. As figure 3 shows, these transactions represented 14 percent and 22 percent respectively of long-term Ex-Im Bank financing in terms of contract value. The remaining long-term transactions were only subject to an initial screening. This is because Ex-Im Bank's guidelines exempt from further review certain categories of projects considered to have little or no potential environmental effects, such as sales of aircraft, locomotives, and air traffic control systems.

**Figure 3: Environmental Review Category of Long-Term Projects, October 1995-May 2003**

Number of authorized long-term projects by environmental review category



Percentage of financing of authorized long-term projects by environmental review category



Source: GAO analysis of Ex-Im Bank data.

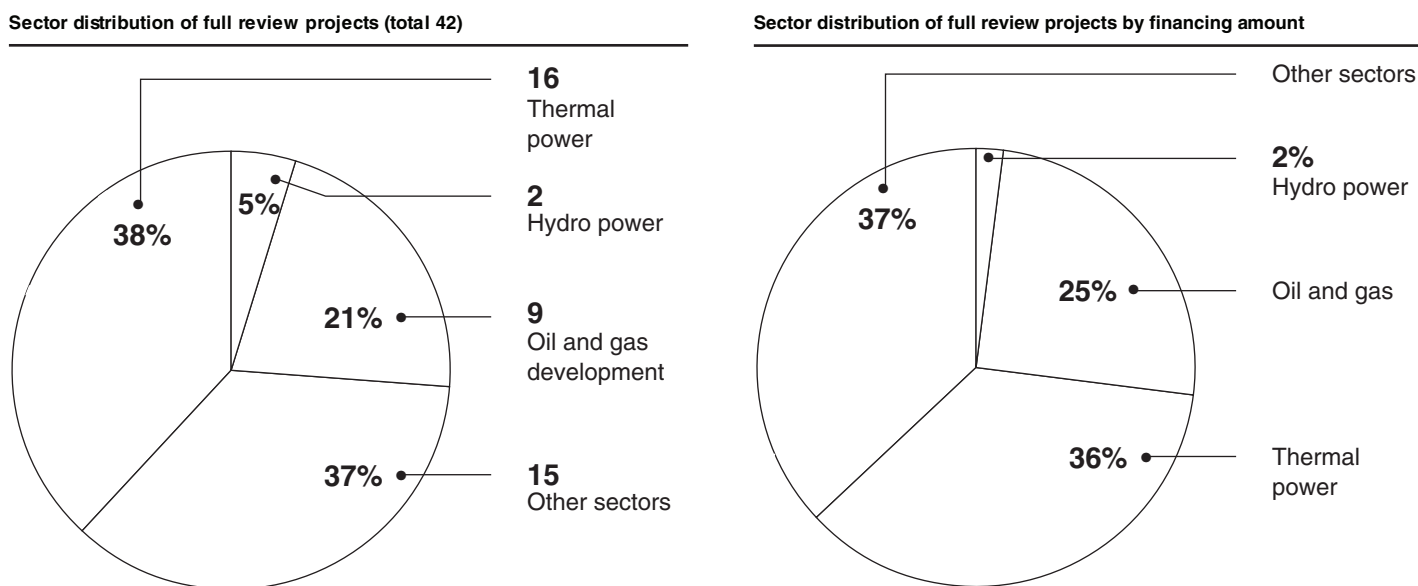
The remainder of Ex-Im Bank financing does not undergo environmental review. This is because medium- and short-term transactions are generally not subject to either screening or review.<sup>16</sup> Our analysis of Ex-Im Bank data showed that about 40 percent of its financing is for short-term transactions.

Environmental reviews of Ex-Im Bank's long-term financing tended to be concentrated in the energy sector. For example, from October 1995 to

<sup>16</sup>Ex-Im Bank's Vice President for Engineering and Environment can determine that those applications receive an environmental review in certain cases.

March 2003, authorized transactions that underwent full environmental reviews were mainly energy-related transactions (that is, thermal power plants, oil and gas development, hydropower plants). Of the 42 that went through a full environmental review, 16 were for thermal power plants and 9 were for oil and gas exploration projects.<sup>17</sup> (See fig. 4 for the sector breakdowns for full review projects.)

**Figure 4: Sector Distribution of Full Review Projects: October 1995 - May 2003**



Source: GAO analysis of Ex-Im Bank data.

Energy-related projects represent a high percentage of projects undergoing a full environmental review, largely because many are financed under project financing terms,<sup>18</sup> which signifies greater overall financial risk to

<sup>17</sup>For medium review projects, 62 out of 181 were in the energy sector, accounting for 52 percent of long-term authorized financing.

<sup>18</sup>These are projects that do not have the same degree of financial backing of host governments, financial institutions, or established corporations, and thus present greater financial risk to Ex-Im Bank. Ex-Im Bank defines the term “project finance” as the financing of projects that are dependent on project cash flows for repayment, as defined by the contractual relationships within each project.

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Ex-Im Bank. For example, the 16 thermal power projects and 9 oil and gas exploration projects were all financed under project finance terms.<sup>19</sup>

Energy-related projects have been an important part of the financing portfolio for both Ex-Im Bank, as noted above, and for other ECAs. For example, financing for energy sector transactions represented about 27 percent of Ex-Im financing during the 1990s and was 47 percent in 1995.<sup>20</sup> In 2001, out of \$12.5 billion of U.S. exports supported by Ex-Im Bank, nearly \$2 billion was in energy sectors, including electric power generation and transmission and oil and gas explorations and refineries. In 2001, oil and gas facilities accounted for 38 percent of the Japanese ECA's financing, and power generation and transmission projects accounted for 25 percent of the British ECA's financing. According to the OECD, 36 percent of OECD member projects (18 out of 50) that required full environmental reviews (category A reviews) in 2002 were energy projects, and these projects accounted for 48 percent of ECA financing.

Energy sector financing is expected to continue to be important for ECAs because of projected increases in energy demand and associated investment needs in developing countries. The International Energy Agency's *2000 World Energy Outlook* projects that over the next 2 decades, nearly \$3 trillion worth of investment in worldwide electricity generating capacities will be needed, not counting the need for transmission and distribution network sectors. The same report projects that world electricity generation is going to increase at an annual rate of 2.7 percent until 2020 and nearly 3,000 gigawatts<sup>21</sup> of new generating capacity is projected to be installed around the world, with more than half of this in developing countries, especially in Asia. The report also projects that OECD countries' share of world energy demand will continue to decline while developing nations' share will accelerate.

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<sup>19</sup>Thirty four of the 38 non-nuclear projects undergoing full environmental review were project finance transactions.

<sup>20</sup>For a description of Ex-Im Bank's energy sector financing over the past decade, see U.S. General Accounting Office, *Export-Import Bank: Energy Financing Trends Affected by Various Factors*, [GAO-02-1024](#) (Washington, D.C. 2002).

<sup>21</sup>A gigawatt is a unit of electric generation capacity. According to the U.S. Department of Energy, U.S. total installed electric generating capacity was 813 gigawatts as of 2001.

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## Impact of Environmental Guidelines Is Complex and Not Quantifiable

For the types of ECA projects that are subject to environmental reviews, available data are limited and do not show clear impacts, and assessments are difficult because of the complex interplay of factors affecting financing and export trends. Trends in Ex-Im Bank financing to sectors where environmental reviews have been concentrated do not show clear impacts. In addition, available data on applications and approvals are insufficient for analytical purposes because they do not capture decisions early in the applications process or through informal channels. Further, environmental policies are only one among many factors that may affect the competitiveness of U.S. exports, and impacts vary depending on the nature of the exporter. At the company level, business views on the impacts of environmental guidelines are mixed. While many business representatives we spoke with have concerns about the environmental review process, including project delays, additional costs, and disclosure, most evidence is anecdotal. Several business representatives said they were less concerned about meeting technical standards of environmental guidelines than about dealing with uncertainties associated with the environmental review process, including reactions to the public disclosure of project information. We could not generally assess the magnitude or the extent to which the concerns reflected actual impacts caused by environmental guidelines. In addition, some business representatives stated that meeting Ex-Im Bank guidelines was consistent with their own requirements to identify issues that could potentially undermine projects.

## Impact of Guidelines Complex and Not Evident from Available Data

Trends in Ex-Im Bank financing to certain environmentally sensitive sectors do not show evidence of impacts of environmental guidelines, although a simple trends analysis would not be able to isolate those impacts from others. We reviewed Ex-Im Bank's financing in four sectors: thermal power, oil and gas development, hydro power, and metal mining. Table 3 illustrates the share of authorized financing to these sectors for periods before and after the adoption of Ex-Im Bank guidelines. The proportion of financing to oil and gas development projects stayed about the same after the implementation of environmental guidelines. Financing of thermal power plants experienced a drop, and metal mining an increase.

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**Table 3: Percentage of Ex-Im Bank’s Financing in Selected Sectors before and after Implementing Environmental Guidelines**

<b>Sectors</b>	<b>1988-1995</b>	<b>1995-2003</b>
Thermal Power	13.28%	9.95%
Oil and Gas Development	10.41	10.31
Hydro Power	0.51	0.19
Metal Mining	0.57	1.12

Source: Ex-Im Bank and GAO analysis.

An additional data limitation is that formal decisions on Ex-Im Bank projects provide only partial information regarding the impact of environmental guidelines on projects for several reasons. First, several companies said they use informal channels to determine whether environmental issues are likely to be a stumbling block before they submit final applications and that they might not do so if they anticipated concerns. Second, projects may be withdrawn or cancelled throughout the application process for any number of reasons that are not publicly reported. Finally, some projects that might have been submitted to Ex-Im Bank in the past may have been withheld because of the belief that Ex-Im Bank may no longer be willing to approve applications for certain types of environmentally sensitive projects, although it is impossible to determine the extent of this phenomenon.

Since the implementation of its environmental guidelines, Ex-Im Bank has only denied one final application on environmental grounds—the Peruvian gas field development project that was denied in August 2003.<sup>22</sup> In 1996, it also rejected the Three Gorges project in an earlier phase of the application process. After undertaking an environmental assessment, the Ex-Im Bank Board of Directors decided not to issue letters of interest—the document Ex-Im Bank issues in its preliminary review of a project seeking long-term loans and guarantees. Ex-Im Bank cited a number of environmental concerns that would have to be addressed by the Three Gorges project sponsors before it would reconsider requests for support, and requested information from the sponsors to that end. The sponsors did not provide

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<sup>22</sup>The Ex-Im Bank Board of Directors reviews the environmental effects of projects on a case-by-case basis, and may approve a project that does not meet all Ex-Im Bank environmental guidelines, considering significant mitigating effects and circumstances. Financing may be conditioned on the implementation of mitigating measures.

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the information, and the project eventually proceeded with financing from other sources.

Environmental policies are only one of many among many factors that affect the competitiveness of U.S. exports financed by Ex-Im Bank. Other factors include various Ex-Im Bank policies such as domestic content requirements,<sup>23</sup> its application process and underwriting requirements, and the terms of coverage its policies provide. Other competitiveness factors are unrelated to Ex-Im Bank policies, such as foreign exchange rates and the geographic location of projects. In addition, factors such as the technological specifications of U.S. exports can be important to sourcing decisions. For example, one multinational company told us that whether the host country has 50 cycle or 60 cycle electricity technology is the overriding factor for determining where their products are going to be manufactured.

The potential impacts of ECA environmental guidelines on U.S. exports depend in part on the overall business structure of the firms seeking ECA financing. For businesses that produce, or source, their products in the United States, the implementation of common environmental guidelines across ECAs should theoretically lower the threat of losing businesses to other ECAs with lax environmental standards. Since these companies are generally confined to doing business with Ex-Im Bank, they would otherwise lose export business if project sponsors select another ECA instead of Ex-Im Bank; therefore these companies have been the strongest business advocates for common guidelines. However, multinational companies may not be affected to the same degree. Officials from several of the companies we met with stated that as multinational companies they have been able to get financing from ECAs other than the U.S. Export-Import Bank. These companies are large and flexible enough that they can seek financing from ECAs in other countries where they have a business presence if they believe that Ex-Im Bank's policies, including its environmental review process, would constitute a significant barrier to winning a project.

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<sup>23</sup>Ex-Im Bank maintains limitations on the level of foreign content that may be included in an Ex-Im Bank financing package. To be eligible for Ex-Im Bank financing, goods and services in a U.S. supply contract must be shipped from the United States to a foreign buyer. Ex-Im Bank will finance goods and services at the lesser amount of either 85 percent of the value of all eligible goods and services in the U.S. supply contract; or 100 percent of the U.S. content in all eligible goods and services in the U.S. supply contract.

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**Business Groups Have Concerns,  
but Impacts Are Difficult to  
Confirm**

Business views on ECA environmental guidelines are mixed. Some business representatives we spoke with expressed concerns about specific impacts of the environmental review process, such as delays and costs. Others were concerned about the impacts of more intangible aspects that lend uncertainty to the process, such as public disclosure of project information. Some business representatives also acknowledged that their businesses are integrating the ECA environmental review policies and procedures into their own risk assessment processes.

Representatives of several companies cited delays during the project approval process as the key impact of the environmental assessment. Ex-Im Bank often asks for additional information from the project sponsors and suppliers to supplement the initial environmental impact assessment submitted. In our review of 24 thermal power plant, oil and gas development, and metal mining projects authorized by Ex-Im Bank between 1995 and 2003, we could not determine if the environmental assessment caused any project delays claimed by the companies. We found delays in some instances related to the gathering and submission of existing documentation to Ex-Im Bank for review and discussion of any outstanding issues, but the records were insufficient for attributing delays to environmental reasons as opposed to financial or other issues. We did find that Ex-Im Bank, in some cases, took measures to limit delays caused by environmental reviews and requirements. This included sending staff to review documentation in country, and making project support contingent on certain documents being provided at a later date.

Business representatives also cited additional costs as an area of concern, especially when project costs increased due to modifications necessary to meet environmental requirements. We found that in some instances Ex-Im Bank engineering staff did require project modifications to meet Ex-Im Bank guidelines for the 24 projects we reviewed. For example, a coal-fired power plant located in China met all of the air quality standards except for particulate emissions. The Chinese-built pollution control device met local standards but daily emissions would exceed the Ex-Im Bank guidelines. The local operator agreed to operate the device at a slightly higher control efficiency, which reduced emissions sufficiently to meet Ex-Im Bank's daily emission limit. Ex-Im Bank officials noted that, as companies have become more familiar with Ex-Im Bank guidelines, new projects are now much less likely to require modifications upon review.

Some businesses are also concerned about other aspects associated with the environmental review process. Many business representatives we

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spoke with believe that their products can readily meet the technical standards of environmental guidelines. They are concerned, however, about aspects that may result in lost business. For example, some elements of Ex-Im Bank's environmental guidelines require a more qualitative judgment of project impacts, such as how to mitigate socioeconomic and sociocultural impacts (such as those associated with the dislocation of people). However, some business representatives stated that these more qualitative areas of environmental standards present challenges and risks to businesses, because of the importance of other parties such as host governments in making and carrying out commitments.

Disclosure of project information during environmental review is another concern for some businesses.<sup>24</sup> Some companies are concerned that disclosure of project information may result in their losing business to competitors if their competitors become aware of a project through the disclosure process. Other companies were also concerned about the potential impacts of public scrutiny. One company representative said that part of the reason the company's sourcing has shifted to Europe was because of Ex-Im Bank's disclosure policy, since European ECAs do not disclose information prior to project approval, although most did not identify differences in environmental guidelines as the determining factor in sourcing decisions.

We did not find specific examples where the disclosure of project information had negative impacts. Company representatives we spoke with did not provide us with any specific cases where they lost business because of the publication of the environmental impact assessment; their concerns were primarily hypothetical. The environmental impact assessments we reviewed did not contain any business proprietary information and did not contain information on the specific companies involved in the projects. According to Ex-Im Bank officials, any such information would be removed by the applicant or owner of the environmental assessment prior to the release of the document to interested parties.

Some companies have acknowledged that they are integrating the ECA environmental review policies and procedures into their own risk assessment processes. For example, several companies said that

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<sup>24</sup>Ex-Im Bank guidelines require that for its projects in its full environmental review category, Ex-Im Bank will make available to interested parties a copy of the project's environmental impact assessment during the application review process.



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environmental review is increasingly viewed as a key component of their overall due diligence, which they conduct regardless of ECA requirements. Companies also acknowledge that since environmentally sensitive projects are coming under increasing NGO scrutiny, their reputations may be at risk if the projects they are involved in are deemed to be environmentally damaging.

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## Agency Comments and Our Evaluation

We provided a draft of this report to the Secretaries of State and the Treasury, and the Chairman of Ex-Im Bank. The Department of the Treasury and Ex-Im Bank provided written comments on the draft report, which are reprinted in appendixes V and VI, respectively. The Department of the Treasury considered the report well balanced, but also emphasized its belief that U.S. leadership on this issue has had a significant positive impact among export credit agencies, despite the lack of a formal OECD agreement. Ex-Im Bank stated that the report provides a thorough analysis, but emphasized its view that, despite progress, the broad nature of the Common Approaches does not yet level the playing field for U.S. exporters. The Department of State did not provide formal comments.

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We are sending copies of this report to interested congressional committees, the Secretaries of State and the Treasury, and the Chairman of Ex-Im Bank. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-4347. Other GAO contacts and staff acknowledgments are listed in appendix VII.



Loren Yager, Director  
International Affairs and Trade

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# Objectives, Scope, and Methodology

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The Chairman of the House Committee on International Relations and the Chairman of the Subcommittee on Europe, House Committee on International Relations asked us to examine the effect of environmental standards for export credit agencies. In response, we assessed (1) the achievements of the Common Approaches and the remaining differences among the members of the Organization for Economic Cooperation and Development (OECD), (2) the prospects for further advancement on common environmental guidelines for export credit agencies, and (3) the impact that environmental guidelines for export credit agencies may have on U.S. exports.

To identify the achievements of the Draft Recommendation on Common Approaches on Environment and Officially Supported Export Credits (Common Approaches) and the remaining differences among the OECD members, we met with and obtained information from officials at the OECD secretariat, export credit agency (ECA) officials in a number of OECD member countries (Belgium, Canada, France, Germany, Japan, and the United Kingdom), and from several U.S. government agencies. Specifically, we interviewed officials in the OECD Trade Directorate's Export Credit Division and reviewed OECD documents presented in meetings of the Working Party on Export Credits and Credit Guarantees (ECG). We also met with ECA and other government officials in Belgium, Canada, France, Germany, and the United Kingdom. In addition, we met with senior officials from the Japanese ECA in Washington, D.C. We reviewed and compared the environmental policies of these countries' ECAs as well. We also met with officials from the U.S. Departments of the Treasury and State and the Export-Import Bank. We obtained an understanding of the environmental policies of each ECA we visited based on information we received in interviews and the documents we were provided. We reviewed and compared the ECA policies according to key procedural elements we identified, such as the screening and categorization of projects, the technical standards used during the review, and public disclosure policies.

To determine the prospects for further advancement on environmental guidelines for ECAs, we interviewed and obtained information from OECD, ECA, and other officials from Belgium, Canada, France, Germany, Japan, and the United Kingdom. We also interviewed representatives from nongovernmental organizations (NGO) active in ECA issues in Belgium, Canada, France, Germany, the United Kingdom, and the United States. In addition, we interviewed business groups knowledgeable about export credit issues in Canada, France, Germany, the United Kingdom, and the

United States to understand their views on the progress that OECD countries have made since the conclusion of the negotiations and on what they believe will and should happen next. We gained these officials' perspectives on their goals for further negotiations on ECA environmental guidelines and what additional provisions they would like to include in the next revision of the OECD Common Approaches. We also reviewed documents from the OECD detailing members' experiences with implementing the Common Approaches.

To understand what impacts environmental guidelines for export credit agencies may have on U.S. exports, we met with, and obtained and analyzed data from, officials at Ex-Im Bank and representatives of U.S. businesses. We first obtained and analyzed data from Ex-Im Bank on long-term transactions that had been authorized by Ex-Im Bank to determine the number of transactions and the amount of Ex-Im Bank financing that falls into each of the three environmental risk categories. We determined that Ex-Im Bank data were sufficiently reliable for analyzing for this engagement, based on our assessment of the completeness and accuracy of the data. We reviewed the data to determine industry sector representation in each of the categories. We then selected 24 of the authorized projects to more specifically determine how they had been affected by Ex-Im Bank environmental guidelines. These 24 projects were selected using several criteria. First, we focused on the three industry sectors (thermo power, oil and gas development, and metal mining) representing about 70 percent of non-nuclear long-term higher risk projects. We also selected projects from the entire period that Ex-Im Bank's guidelines were in effect. Finally, we selected projects that received both a full and a medium environmental review, with an equal number in each category for oil and gas and thermo power. We selected all four metal mining projects, since there was a limited number. We analyzed Ex-Im Bank environmental assessments for each of these projects and met with Ex-Im Bank officials in the Engineering and Environment division to discuss the environmental review process and their interaction with applicants for financing. In addition, we interviewed representatives of nine U.S. companies, including a U.S. subsidiary overseas, to obtain their views and concerns about the impact of environmental guidelines on their exports. These businesses were responsible for 82 out of the 522 long-term projects authorized between October 1995 and May 2003 and 19 of the 38 non-nuclear projects that underwent a full environmental review.

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**Appendix I**  
**Objectives, Scope, and Methodology**

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The information on foreign laws or regulations in this report does not reflect our independent legal analysis but is based on interviews and secondary sources.

We conducted our review from November 2002 through August 2003 in accordance with generally accepted government auditing standards.

# OECD Members and Common Approaches Adherents

Table 4 represents the membership of the OECD's ECG, and their respective positions on Common Approaches issues. There are 29 members of the ECG. With the United States declining to accept the Common Approaches in November 2001, 28 ECG members agreed to voluntarily adhere to the Common Approaches.

By March 2003, 24 countries had reported to the OECD on their category A and B projects for 2002 (that number includes the United States, although they do not have to report since they are not technically adhering to the Common Approaches). Four adherents to the Common Approaches had not reported anything as of March 2002—the Czech Republic, Mexico, the Slovak Republic, and Turkey.

Seventeen countries reported that during 2002 they had reviewed at least one category A or B project.

**Table 4: OECD Members and Common Approaches Adherents**

ECG members (29)	Common Approaches adherents (28)	Members reporting on A and B projects (24)	Members with A and B projects for 2002 (17)
Australia	+	+	+
Austria	+	+	+
Belgium	+	+	+
Canada	+	+	+
Czech Republic	+		
Denmark	+	+	+
Finland	+	+	+
France	+	+	+
Germany	+	+	+
Greece	+	+	
Hungary	+	+	
Ireland	+		
Italy	+	+	+
Japan	+	+	+
Korea	+	+	+
Luxemburg	+	+	
Mexico	+		
Netherlands	+	+	+

**Appendix II**  
**OECD Members and Common Approaches**  
**Adherents**

*(Continued From Previous Page)*

<b>ECG members (29)</b>	<b>Common Approaches adherents (28)</b>	<b>Members reporting on A and B projects (24)</b>	<b>Members with A and B projects for 2002 (17)</b>
New Zealand	+	+	
Norway	+	+	
Poland	+	+	
Portugal	+	+	
Slovak Republic (joined 5/27/02)	+		
Spain	+	+	+
Sweden	+	+	+
Switzerland	+	+	+
Turkey	+		
United Kingdom	+	+	+
United States		+	+

Source: GAO analysis based on OECD documents.

# Description of Five ECA-Supported Projects

ECAs provide financial support for a wide array of goods and services. However, projects in certain areas, such as thermal power, hydropower, and oil and gas, have been the most likely to require environmental review under the Ex-Im Bank's or other export credit agencies' guidelines. In this appendix, we describe five recent projects that have been subject to environmental review and briefly discuss environmental concerns associated with the projects and ECAs' project involvement.

## Batu Hijau Mine Project

### Project Description

Batu Hijau is an open pit copper and gold mine located on Indonesia's Sumbawa Island. A consortium, comprised of U.S.-based Newmont Mining Corporation, Sumitomo (Japan), and PT Pukuafu Indah (Indonesia), operates the mine. Newmont holds majority ownership in the joint venture. Batu Hijau began operation in 2000 and is expected to continue operation for 20 years. When the mine is completely excavated, 3 billion tons of rock will have been mined, creating a mine pit that will be 2,625 meters wide (8,612 feet) and 460 meters deep (1,509 feet). As of January 2003, Batu Hijau employed approximately 6,700 people, 95 percent of whom are Indonesian. In 2002, the mine as a whole contributed more than \$171 million to the Indonesian economy. The mine produced 657.7 million pounds of copper and 492 thousand ounces of gold in 2002.

### Environmental Concerns

Batu Hijau is located primarily within a previously undisturbed tropical forest. Environmental concerns associated with Batu Hijau include

- loss of vegetation, specifically loss of primary tropical forest and habitat associated with the protected yellow-crested cockatoo;
- impact on local water levels and water quality (pH and sedimentation);
- disposal of large amounts of excavated rock and tailings, waste rock created during the extraction process;
- impact of air emissions from mine infrastructure and equipment; and

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- maintenance of mine pit environmental programs following cessation of mine operation.

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## ECA Involvement

In 1997, Ex-Im Bank provided \$425 million in project financing to Batu Hijau project sponsors and developers. Japan's export credit agency also provided support for Batu Hijau.

Ex-Im required a number of environmental studies and project modifications designed to minimize the project's environmental and social impacts before providing financing. Project developers have attempted to mitigate environmental concerns through, among other efforts, development of a deep-sea tailings disposal system, operation of a revegetation program, and study of water seepage patterns.

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## Camisea Natural Gas Project

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### Project Description

The over \$2 billion Camisea natural gas project, located near the Lower Urubamba River in the Echarte district in Peru, involves the extraction and processing of natural gas and natural gas liquids and the transportation of these products to markets in Lima and ports for export. Royal Dutch/Shell first discovered the Camisea gas fields in the mid-1980s, and Shell and Mobil Oil further explored the fields between 1996 and 1998. In July 1998, Shell and Mobil withdrew from the project, leading the government of Peru to pursue alternative developers. In December 2000, the government of Peru signed a series of contracts with PlusPetrol Corporation (Argentina) and with two consortiums, including Grana y Montero (Peru), Hidrocarburos Andinos (Argentina), Hunt Oil Company (USA), SK Corporation (Korea), Sonatrach (Algeria), Sucursal del Peru, Sucursal Peruana, and Techint (Argentina).

The Camisea project is expected to supply a substantial portion of Peru's energy needs and allow for natural gas export. Camisea requires construction of eight wells accessing the San Martin and Cashiriari natural gas fields; a liquid separation plant to separate water and liquid hydrocarbons; two pipelines (one for natural gas and one for natural gas liquids), one estimated to run 540 kilometers (336 miles) and the other 680



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kilometers (423 miles); a coastal fractionation plant to separate liquids into commercial quality products, and an offshore loading facility. Construction of project components under the consortium contracts began in 2001 and was roughly 60 percent complete as of February 2003. The project is scheduled to begin commercial production in August 2004. The San Martin and Cashiriari gas fields together contain proven reserves<sup>1</sup> of 8.7 trillion cubic feet of natural gas and 545 million barrels of natural gas liquids. Project officials estimate that project construction will employ an average of 1,700 people during the construction period.

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## Environmental Concerns

The Camisea project is located within Peru's Amazon jungle in close proximity to several voluntarily isolated indigenous peoples. Two-thirds of the project area, sometimes referred to as Block 88, lies within the Nahua-Kugapakori Indigenous Reserve and straddles the Camisea River. The coastal fractionation plant will be located in the buffer zone of the Paracas National Reserve, Peru's only coastal marine reserve. The project pipelines will traverse the rain forests between Camisea and the coast, passing over the Andes Mountains at an altitude of 4,500 meters (14,764 feet).

The location of the project has led to major concerns about Camisea's environmental and social impacts that include

- increased contact between indigenous peoples and project employees and the associated risks of epidemic disease and cultural damage,
- improper use of project right-of-way by Peruvians seeking fertile land and erosion and loss of biodiversity along the right-of-way,
- loss of biodiversity in the Camisea River and related effects on indigenous peoples dependent on the river for fish and water,
- lack of sufficient information on alternative sites in the environmental assessment needed to justify construction of the project's marine terminal facility adjacent to the environmentally sensitive Paracas Bay Natural Reserve, and

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<sup>1</sup>Proven reserves are mineral reserves considered economically viable for extraction and that have been explored sufficiently to make reliable estimates of the reserve volume, tonnage, and quality.

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- loss of biodiversity in Paracas National Reserve.

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ECA Involvement

On August 28, 2003, Ex-Im Bank's Board, in a 2 to 1 vote, declined to support Camisea on environmental grounds.

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**Chad-Cameroon  
Petroleum Pipeline  
Project**

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Project Description

The Chad-Cameroon Petroleum Pipeline Project accesses the oil fields at Doba in southern Chad and transports the oil 1,070 kilometers (665 miles) to an off-shore oil-loading facility on Cameroon's coast. Sponsors of the project, ExxonMobil (USA), Petronas (Malaysia), and ChevronTexaco (USA), estimate construction costs will be \$3.5 billion. Estimates indicate that the government of Chad will receive a total of \$2 billion in revenues from the project, while the government of Cameroon will receive \$500 million, assuming reserves of 917 million barrels of oil. In Chad, revenues from the pipeline could increase total government revenues by 45 to 50 percent. In the fourth quarter of 2002, wage payments of \$12 million were made to the 9,643 workers from Chad and Cameroon that the project employs. As construction concludes, project developers are reducing the workforce; nonetheless, wage payments totaling \$10.1 million were made to workers from Chad and Cameroon in the first quarter of 2003. Pipeline operation began July 24, 2003, and full operation is expected to commence by the end of 2003.

The World Bank Group has provided \$92.9 million in direct loans to the governments of Chad and Cameroon to finance the governments' minority holdings in the project. Additionally, the International Finance Corporation, the World Bank Group institution that facilitates private sector projects, has provided \$100 million in loans to the joint venture pipeline companies and has mobilized an additional \$100 million from commercial lenders.

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Environmental Concerns

Project sponsors undertook some project modifications to meet project standards established by the World Bank and Ex-Im Bank, including alteration of the pipeline route and development of a community

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consultation process. Concerned NGOs, however, claim that project developers insufficiently addressed the concerns of local residents and that few changes resulted from environmental reviews.

Environmental and social issues raised by both World Bank and environmental NGOs include

- possible oil spills occurring along the pipeline or at the offshore oil-loading facility;
- decreases in biodiversity along the pipeline right-of-way, particularly along the Sanaga River system, within Cameroon's Atlantic littoral rainforest, and in the Kribi coastal region;
- negative effects on indigenous Bakola pygmies living in the vicinity of the pipeline; and
- governmental repression of opposition to the pipeline as seen in the imprisonment of a Member of Parliament as a result of his opposition to the project.

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## ECA Involvement

Both Ex-Im Bank and France's ECA, Coface, have provided support to the Chad-Cameroon project. In 2000, Ex-Im Bank approved \$200 million in export credit guarantees for a U.S.-based engineering firm contracted to build the pipeline portion of the project.

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## Olkaria III Geothermal Power Plant

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### Project Description

The Olkaria III geothermal power plant, located in the Olkaria Domes geothermal field near Lake Naivasha, is Kenya's first privately developed and owned geothermal power plant. Olkaria III is the third geothermal development project undertaken in the Olkaria region but the first under ORMAT, a U.S.-based geothermal developer. Olkaria I has been operational since 1981 under the governance of Kenya Electricity Generating Company Ltd. (KenGen), a Kenyan energy state-owned enterprise. KenGen is supervising the public sector development of Olkaria II, scheduled to begin

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operation in September 2003. Olkaria III began operation of an early production facility in August 2000 with scheduled expansion of production from 12 megawatts to 48 megawatts. ORMAT funded the entire \$50 million first phase of the Olkaria III project.

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## Environmental Concerns

In 1984, 3 years after Olkaria I began operation, but before the creation of Olkaria II and III, Kenya created Hell's Gate National Park, including in the park the tract of land upon which the Olkaria geothermal plants are located. Additionally, indigenous Maasai peoples have historically occupied the land surrounding Lake Naivasha. These two complicating factors have led to environmental and social concerns surrounding the Olkaria developments that include

- possible emissions-related negative health impacts on local Maasai communities,
- Maasai loss of historically occupied lands, and
- possible negative impacts on local flower growers and wildlife dependent upon Lake Naivasha water.

Olkaria III project developers have addressed some environmental concerns through use of air-cooled geothermal technology and reinjection of geothermal fluids produced by the plant, technologies not employed in Olkaria I or II.

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## ECA Involvement

ORMAT's application for Ex-Im Bank support has been pending since 2001. No decision had been made as of August 28, 2003. Ex-Im officials stated that the project delay was not due to environmental concerns.

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## Three Gorges Dam

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### Project Description

The government-owned Three Gorges Dam, located on the Yangtze River in China's Hubei Province, will be the largest hydroelectric plant in the world when it is completed in 2009. Dam construction began in 1994, and the

water sluice gates were first closed on June 1, 2003. Companies headquartered throughout the world have received construction contracts.

The Chinese government has undertaken construction of the dam, primarily to increase China's power generation capacity, control downstream flooding of the Yangtze, and improve river navigation for large vessels. The annual energy generating capacity of the dam's 26 turbine generators will be 84.7 billion kilowatt hours, generated from a renewable energy source without creating pollution. The dam itself will stand 181 meters (594 feet) high and create a reservoir stretching over 600 kilometers (373 miles). The reservoir is expected to have a floodwater storage capacity of 28.97 billion cubic yards. A multistage ship lock and lift will provide upstream navigation to river vessels.

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## Environmental Concerns

Throughout planning and construction of the Three Gorges Dam, the project has raised environmental and social concerns that include

- inadequate treatment of water discharged above the dam and associated health risks for communities bordering the reservoir,
- relocation and provision of housing and employment for the up to 1.3 million people residing in the plain of the reservoir,
- loss of historical and archeological artifacts located in the plain of the reservoir,
- possibility of sedimentation limiting the dam's ability to control flooding and increasing regional seismic activity, and
- alterations in the Yangtze River's ecosystem and surrounding river basin.

The Chinese government has taken steps to address several of the above issues, including relocation of the 1.3 million people affected by the dam's construction beginning in 1995, efforts to remove historical and archeological artifacts from the reservoir area, and creation of water treatment plants upstream of the dam. The results of the government's efforts to improve the environmental impact of the dam have been subject to debate.

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**ECA Involvement**

In May 1996, Ex-Im Bank's Board of Directors declined to issue a letter of interest to exporters seeking a financing commitment for the Three Gorges Dam project. This action was based on a determination that the information made available to date indicated that the project as planned would not meet the Bank's environmental guidelines. The Ex-Im Bank sent a letter in July 1996 detailing the type and scope of information that it would need to identify and assess proposed mitigation measures that could be incorporated into the project in order to meet its guidelines. That information was never provided, and project developers eventually successfully sought support from other OECD export credit agencies.

# Comparison of ECA Environmental Policies for Seven Selected Countries

Table 5 details the environmental review procedures and policies of the export credit agencies of six OECD countries that have agreed to voluntarily adhere to the Common approaches, and of Ex-Im Bank. The screening procedures, impact categories, and environmental review processes are generally similar for all of the ECAs. The main differences are in the ECAs' public disclosure policies and in their use of technical standards for environmental reviews.

**Table 5: Comparison of Environmental Review Procedures and Policies for ECAs of Selected OECD Countries**

	Belgium	Canada	France	Germany	Japan	United Kingdom	United States
	Office National du Ducroire (OND)	Export Development Canada (EDC)	Coface	Hermes	Japan Bank for International Cooperation (JBIC)	Export Credit Guarantee Department (ECGD)	Export Import Bank (Ex-Im Bank)
Date of policy introduction	2002	1999 (revised 2001)	1999 (revised periodically since 2001)	2001 (implemented Common Approaches 2002)	1999 (revised 2002)	2000 (revised 2003)	1995 (revised 1998)
Cost thresholds	Applications subject to environmental screening if requested coverage is for 10 million special drawing rights or more, unless project is in a sensitive location.	Applications subject to environmental screening if requested coverage is for 10 million SDR or more and repayment term is for 2 years or more.	Applications subject to environmental screening if requested coverage is for 10 million euros or more.	Applications subject to environmental screening if requested coverage is at least 15 million euros or if project has potential to cause significant adverse impacts.	All applications subject to environmental review. If requested coverage is for less than 10 million SDR, project is immediately classified as category C, and no further environmental review is required, unless project has sensitive characteristics or is in a sensitive location.	All applications screened for environmental impact.	Application subject to environmental screening if requested coverage is for \$10 million or greater, or repayment term exceeds 7 years.

**Appendix IV  
Comparison of ECA Environmental Policies  
for Seven Selected Countries**

*(Continued From Previous Page)*

	<b>Belgium</b>	<b>Canada</b>	<b>France</b>	<b>Germany</b>	<b>Japan</b>	<b>United Kingdom</b>	<b>United States</b>
	<b>Office National du Dueroire (OND)</b>	<b>Export Development Canada (EDC)</b>	<b>Coface</b>	<b>Hermes</b>	<b>Japan Bank for International Cooperation (JBIC)</b>	<b>Export Credit Department (ECGD)</b>	<b>Export Import Bank (Ex-Im Bank)</b>
Screening procedures	All applicants submit completed environmental questionnaire with application, which is used for categorizing potential projects.	EDC may rely on past agency experience, applicable outside resources, and/or completed environmental screening questionnaires to screen potential projects and categorize them.	All applications are prescreened, based on amount of requested coverage and sensitivity of project location. Applications that meet the cost threshold then complete a screening questionnaire, which is used for categorizing potential projects.	Projects that meet the cost thresholds undergo a preliminary examination, and the applicant must submit information on environmental impact. Underwriters evaluate each project based on cost and sector.	All applicants submit a completed environmental questionnaire, which is used for categorizing potential projects.	ECGD screens applications to determine need for further environmental information. Applicants for high impact projects must submit a full Environmental Impact Assessment (EIA). Applicants for medium impact projects must complete an impact questionnaire. Applicants for low impact projects have no further requirements.	Applications for projects above the threshold(s) must include a screening document, which allows Ex-Im to determine if an environmental review is necessary, and if so, the scope of that review. Applications for projects below the threshold(s) are screened internally to determine if a review is necessary.



**Appendix IV  
Comparison of ECA Environmental Policies  
for Seven Selected Countries**

(Continued From Previous Page)

	<b>Belgium</b>	<b>Canada</b>	<b>France</b>	<b>Germany</b>	<b>Japan</b>	<b>United Kingdom</b>	<b>United States</b>
	<b>Office National du Dueroire (OND)</b>	<b>Export Development Canada (EDC)</b>	<b>Coface</b>	<b>Hermes</b>	<b>Japan Bank for International Cooperation (JBIC)</b>	<b>Export Credit Department (ECGD)</b>	<b>Export Import Bank (Ex-Im Bank)</b>
Impact categories	<p><b>High impact (Category A)</b> Project has a definitive negative impact on the environment, and requested coverage is for more than 10 million SDR.</p> <p><b>Medium impact (Category B)</b> Project has an uncertain impact on the environment or has a definitive negative impact on the environment but requested coverage is less than or equal to 10 million SDR.</p> <p><b>Low impact (Category C)</b> Project has no impact on the environment, or the impact is positive.</p>	<p><b>High impact (Category A)</b> Project is likely to have significant adverse impacts that are sensitive, diverse, or unprecedented and may affect an area broader than the sites subject to physical works.</p> <p><b>Medium impact (Category B)</b> Project has potential adverse impacts that are less adverse than those of category A projects and are site-specific and rarely irreversible. Mitigation measures are more readily available.</p> <p><b>Low impact (Category C)</b> Project is likely to have minimal or no adverse impacts.</p>	<p><b>High impact (Category A)</b> Project has potentially significant adverse impact.</p> <p><b>Medium impact (Category B)</b> Project has potentially adverse impacts, which may require additional review.</p> <p><b>Low impact (Category C)</b> Project has little or no impacts.</p>	<p><b>High impact (Category A)</b> Project is assumed to have strong ecological, social, or developmental impacts, which in most cases appear to be not locally limited and/or reversible.</p> <p><b>Medium impact (Category B)</b> Project is assumed to have limited ecological, social, or developmental impacts, which usually appear to be locally limited and reversible.</p> <p><b>Low impact (Category C)</b> Project is expected to have no or only insignificant ecological, social, or developmental impacts.</p>	<p><b>High impact (Category A)</b> Project is likely to have significant, complicated, and/or unprecedented adverse impacts that are sensitive and may affect an area broader than the sites subject to physical works.</p> <p><b>Medium impact (Category B)</b> Project has potential adverse impacts that are less adverse than those of category A projects and are site specific and rarely irreversible. Mitigation measures are more readily available.</p> <p><b>Low impact (Category C)</b> Project has little or no adverse environmental impacts.</p>	<p><b>High impact (Category A)</b> Project has potential for major adverse impacts on environment, workforce, immediate dependents, or community that may not be predictable and are usually irreversible, diverse, or sensitive.</p> <p><b>Medium impact (Category B)</b> Project could cause adverse impacts but are unlikely to be as diverse or sensitive as those for high impact projects. Remedial measures can be implemented more easily.</p> <p><b>Low impact (Category C)</b> Project is unlikely to cause material adverse impacts.</p>	<p><b>High impact (Category B)</b> Project has potential for significant impact and/or is a project finance transaction, is associated with a hydroelectric or forestry project, or is in or near a sensitive location.</p> <p><b>Medium impact (Category C)</b> Project has potential for some impact.</p> <p><b>Low impact (Category A)</b> Project has little or no potential impact. The export is a product not identified with a particular project or the project it is identified with is in one of several exempt sectors.</p>

**Appendix IV  
Comparison of ECA Environmental Policies  
for Seven Selected Countries**

(Continued From Previous Page)

	<b>Belgium</b>	<b>Canada</b>	<b>France</b>	<b>Germany</b>	<b>Japan</b>	<b>United Kingdom</b>	<b>United States</b>
	<b>Office National du Ducroire (OND)</b>	<b>Export Development Canada (EDC)</b>	<b>Coface</b>	<b>Hermes</b>	<b>Japan Bank for International Cooperation (JBIC)</b>	<b>Export Credit Department (ECGD)</b>	<b>Export Import Bank (Ex-Im Bank)</b>
Environmental review process	<p><b>High impact</b> Environmental impact assessment is requested and then assessed using OND's internal checklist .</p> <p><b>Medium impact</b> Exporter must complete extensive questionnaire, analyzed by the underwriter according to an objective scoring method. If the questionnaire indicates an acceptable impact on the environment, the review is complete. If an important impact on the environment is indicated, OND refuses the project unless mitigation measures are put in place or an EIA is submitted.</p> <p><b>Low impact</b> No further review required.</p>	<p><b>High impact</b> Environmental impact assessment (or comparable report) must be carried out by an independent expert not affiliated with the project.</p> <p><b>Medium impact</b> Scope and form of environmental review may vary from project to project. Low impact environmental review is required beyond such information as may be required for project categorization.</p>	<p><b>High impact</b> Environmental review is based on the EIA submitted by the applicant. The review assesses the potential environmental impact of the project and the results are checked against the environmental regulations of the host country and international standards.</p> <p><b>Medium impact</b> Environmental review is based on additional environmental provided by the applicant and consultation with the project stakeholders, including sponsor, exporter, and other sources.</p> <p><b>Low impact</b> No environmental review required beyond screening.</p>	<p><b>High impact</b> Applicant submits an exhaustive description of all relevant environmental aspects.</p> <p><b>Medium impact</b> Plausible criteria for environmental relevance or generally acceptable information is sufficient.</p> <p><b>Low impact</b> No further information required.</p>	<p><b>High impact</b> Environmental impact assessment is required and JBIC will likely visit the project site. If the project results in large-scale resettlement, applicants must submit a resettlement plan. JBIC's environmental review is based on the EIA and other reports prepared by project proponents and submitted through the borrower.</p> <p><b>Medium impact</b> Scope and form of environmental review may vary from project to project but will examine potential positive and negative effects and mitigation options. JBIC's environmental review is based on information</p>	<p><b>High impact</b> EIA (or other comparable assessment) must be carried out, with inputs from experts.</p> <p><b>Medium impact</b> Full review of application forms and impact questionnaire undertaken.</p> <p><b>Low impact</b> Initial screening of the application forms with no further review of the project.</p>	<p><b>High impact</b> Applicant required to submit an EIA, on which Engineering and Environment Department bases its evaluation of the project.</p> <p><b>Medium impact</b> Applicant must submit sufficient information for Engineering and Environment Department to determine if the project adheres to Ex-Im guidelines.</p> <p><b>Low impact</b> No further review is required.</p>

**Appendix IV  
Comparison of ECA Environmental Policies  
for Seven Selected Countries**

*(Continued From Previous Page)*

	<b>Belgium</b>	<b>Canada</b>	<b>France</b>	<b>Germany</b>	<b>Japan</b>	<b>United Kingdom</b>	<b>United States</b>
	<b>Office National du Dueroire (OND)</b>	<b>Export Development Canada (EDC)</b>	<b>Coface</b>	<b>Hermes</b>	<b>Japan Bank for International Cooperation (JBIC)</b>	<b>Export Credit Department (ECGD)</b>	<b>Export Import Bank (Ex-Im Bank)</b>
					provided by borrowers and related parties. <b>Low impact</b> No environmental review is required beyond such information as may be required for project categorization.		
Public disclosure of environmental information	No commitment to providing public with project information before or after making a financing decision, due to national regulations.	No commitment to providing public with project information before making a financing decision, but encourages project sponsors to make information available; makes limited project information available after export credit agreement is signed.	No commitment to providing public with project information before making a financing decision; publishes some projects' environmental assessments after making financing decision.	No commitment to providing public with project information before making a financing decision, but says will publish information about large and sensitive projects, after making a financing decision, with consent from exporter.	Commitment to providing public with project information before making a financing decision, with consent of exporter; will publish information on its Web site prior to making financing decision; encourages public input.	Commitment to providing public with project information before making a financing decision, with consent from exporter; will publish information on its Web site, prior to making financing decision.	Commitment to providing public with project information before making a financing decision, requiring exporter to permit release of its project's EIA. Will publish information on high and medium impact projects on its Web site prior to making financing decision, as well as information on how to obtain a project's EIA. Encourage public comments on potential projects.

**Appendix IV  
Comparison of ECA Environmental Policies  
for Seven Selected Countries**

*(Continued From Previous Page)*

	<b>Belgium</b>	<b>Canada</b>	<b>France</b>	<b>Germany</b>	<b>Japan</b>	<b>United Kingdom</b>	<b>United States</b>
	<b>Office National du Dueroire (OND)</b>	<b>Export Development Canada (EDC)</b>	<b>Coface</b>	<b>Hermes</b>	<b>Japan Bank for International Cooperation (JBIC)</b>	<b>Export Credit Guarantee Department (ECGD)</b>	<b>Export Import Bank (Ex-Im Bank)</b>
Technical standards used	Use both host country and international standards.	No single set of standards; benchmarking based on standards from World Bank, regional development banks, Canada, World Health Organization	Developed own standards for three industry sectors, using World Bank standards, and industry best practices as benchmarks.	No single set of standards; projects have to meet host country standards or applicants can explain why they do not; host country standards are then compared with international standards.	Benchmarking based on standards from host country and international organizations; JBIC will consult with stakeholders for projects that do not meet either of these standards.	Benchmarking based on standards from several sources: World Bank Group, UK/EU standards, industry best practices, regional development banks.	All projects must meet Ex-Im's own standards, as adapted from World Bank standards, and host country standards.

Source: GAO analysis based on OECD and county documents.

# Comments from the Department of the Treasury



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

August 28, 2003

Loren Yager  
Director, International Affairs and Trade  
U.S. General Accounting Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Mr. Yager:

Thank you for providing the opportunity to comment on GAO's draft report entitled, "Export Credit Agencies: Movement Toward Common Environmental Guidelines, but National Differences Remain" (GAO-03-1093).

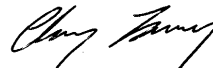
We were glad to assist your staff in understanding the fairly complex negotiating history of this subject. Since your review began in late 2002, I hope that the meetings and other communications between our organizations have been helpful to GAO's task.

We find your report to be a thorough and thoughtful analysis of the OECD process and effort to develop common environmental guidelines for export credit agencies. It was a difficult task to convince export credit agencies to introduce entirely new considerations into their analyses, when those analyses have historically been purely financial in nature. Despite the fact that a formal OECD agreement has not yet been reached, we believe that U.S. leadership on this issue has had a significant impact on highlighting the environmental issue among export credit agencies generally. We consider this to be a positive outcome in any event.

We look forward to the upcoming OECD negotiations and hope that they will be an opportunity to further improve upon the draft OECD agreement known as "Common Approaches."

Thank you again for a well-balanced report.

Sincerely,



Clay Lowery  
Deputy Assistant Secretary  
Debt, Development and Quantitative Policy

# Comments from the Export-Import Bank



EXPORT-IMPORT BANK  
OF THE UNITED STATES

September 8, 2003

Dear Mr. Yager:

Thank you for providing the Draft GAO report entitled "Export Credit Agencies: Movement toward Common Environmental Guidelines, but National Differences Remain".

The Export-Import Bank of the United States ("Ex-Im Bank") believes that the draft provides a thorough analysis of the events and positions that have led to the present level of ECA environmental review procedures. Moreover, Ex-Im Bank agrees with the GAO's observations that, despite real progress over the past couple of years in a number of national ECA review procedures (including the introduction of World Bank standards and information sharing regimes), the broad nature of the Common Approaches framework does not yet contain the provisions necessary to level the playing field for U.S. exporters. Ex-Im Bank's objective has always been to provide a transparent process and clear, predictable procedures to ensure that U.S. exporters' competitiveness is not impaired by the flexible implementation of environmental review procedures by other ECAs.

Ex-Im Bank appreciates the opportunity to comment on the draft report.

Sincerely,

James C. Cruse  
Senior Vice President – Policy

811 VERMONT AVENUE, N.W. WASHINGTON, D.C. 20571

# GAO Contacts and Staff Acknowledgments

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## GAO Contacts

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## Acknowledgments

In addition to the persons named above, Stephanie Robinson, Ming Chen, Laura Yannayon, Sarah Ellis Peed, Rona Mendelsohn and Jane-yu Li made key contributions to this report.

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