

15 June, 2000

## OECD ROUND TABLE ON SUSTAINABLE DEVELOPMENT

Fourth Meeting

Paris, 27-28 June 2000

Agenda Item 3

### EXPORT CREDITS AND THE ENVIRONMENT

*The following note complements the background papers on "Trade Liberalisation and Sustainable Development" and "Foreign Investment and Sustainable Development", with information on the activities on "Exports credits and the Environment" carried out in the OECD Working Party on Export Credits and Credits Guarantees.*

#### **Issue**

- How export credit agencies should take account of the environmental impact of the projects they support.

#### **Highlights**

Substantial progress has made on the issue of the Environment and Export Credits in the OECD Working Party on Export Credits and Credit Guarantees (ECG) as demonstrated by:

- The February 2000 Action Statement that committed OECD Members to take concrete steps within an accelerated work programme to fulfil, by the end of 2001, the OECD Ministerial mandate "...to strengthen common approaches on export credits and the environment".
- The April 2000 Work Plan agreed by the ECG at their Meeting in April 2000 to facilitate the work programme beginning with a further special meeting dedicated to the Environment in June this year. The Work-Plan is not publicly available as it is intended to be used as a flexible working document by the Members of the ECG.

The ECG Members recognise that their OECD Ministerial mandate is not the same as that of the G8 which calls for work "...towards common environmental guidelines..."; however, the work in the OECD will be a very good and sound foundation for substantive progress in the area of the environment, and G8 Environment Ministers at their recent Meeting in Otsu welcomed the work of the ECG including its Action Statement and Work-Plan.

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## **Comments**

### *Ministerial Interest*

The issue of how export credit agencies should take account of the environmental impact of projects for which they provide official support has been highlighted as a priority in recent Communiqués from both OECD Ministers, G8 Heads and their Environment Ministers. Most notably, in the Communiqué from the 1999 OECD Council Meeting at Ministerial Level, OECD Ministers:

*“welcomed the progress towards the OECD Agreement on Environmental Information Exchange for Larger Projects in relation to officially supported export credits and urged that the work continue with a view to strengthening common approaches and to report on progress made at the next Ministerial Council Meeting.” (paragraph. 18)*

Additionally, the Communiqué of the G8 Summit in Cologne in June 1999 made further reference to the work of the ECG:

*“We will work within the OECD towards common environmental guidelines for export credit agencies. We aim to complete this work by the 2001 G8 Summit.”(paragraph 32)*

Also, the Communiqué from the April 2000 Environment Ministers Meeting in Otsu made reference to the work of the ECG:

*“Last year, G8 Heads called on export credit agencies to work “towards common environmental guidelines... by the 2001 G8 Summit.”....We welcome as a first step the Action Statement agreed in February this year by the OECD Working Party on Export Credits and Credit Guarantees and the proposed work plan including Special Sessions dedicated to the environment issue.”(paragraph 29)*

### **Existing Practices**

Current practices vary from export credit agency to export credit agency. While some have developed quantitative and qualitative environmental guidelines, others have adopted different and less formal approaches and/or are at an earlier stage of considering how to address the issue.

The very detailed World Bank guidelines are applied in projects where export credit agencies are involved in co-financing with the IBRD. These World Bank guidelines are, however, considered by most ECG Members as inappropriate for the rest of their business, and that an approach more tailored to the nature of officially supported export credits is required.

### **Progress to Date in the ECG**

Against the background of the OECD and G8 Ministerial Mandates, the issue of export credits and the environment is the priority issue currently being addressed by ECG.

The ECG has worked on the issue of export credits and the environment since 1994 and, in addition to undertaking two extensive surveys of practices and policies of OECD Member countries and exchanging information on individual projects, its Members have reached a number of significant agreements:

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- In April 1998, Members agreed to a “Statement of Intent on Officially Supported Export Credits and the Environment”. This consisted of six broad statements of practices and principles and a commitment to share information on their application in national export credit systems. This Statement is available on the OECD export credit Internet site.
- Following their April 1999 Meeting, Members concluded an “Agreement on Environmental Information Exchange for Larger Projects” under which they agree to share information on the environmental aspects of projects, including any Environmental Impact Assessment, and to formulate views on environmental concerns and co-ordinate responses to exporters, lenders and borrowers. This Agreement was the subject of an OECD News Release, and is on the OECD export credit Internet site.
- In February 2000, ECG Members agreed an “Action Statement on the Environment” to facilitate the fulfilment of their Mandate from OECD Ministers to strengthen common approaches with respect to export credits and the environment. This Statement comprises a commitment to further concrete action among OECD Member countries and an accelerated work programme with a firm deadline for its completion, i.e. by the end of 2001. In particular, it commits Members to continue to develop in their national systems procedures and methodologies for identifying and assessing the environmental impact of projects; to continue to monitor and evaluate these and their experience related to mitigating the environmental impact of projects; and to share these experiences with other Members.
- The Action Statement also commits the OECD Members to refine further their 1999 Agreement on Environmental Information Exchange; to agree a Work-Plan with meetings dedicated to the environment issue to facilitate the fulfilment of the OECD Ministerial Mandate; and to disseminate the results of the work.
- Finally, the Action Statement commits the OECD Members to consult with appropriate stakeholders on a regular basis.

### ***Future Work***

In order to fulfil their Ministerial Mandate, ECG Members have agreed to hold further special sessions dedicated to the environment issue, the next is scheduled for June 2000. These meetings will follow the Work Plan as envisaged in the Action Statement.



The OECD has adopted a number of guidelines to promote the compatibility of trade and environmental policies and thereby contribute to the achievement of sustainable development. These guidelines focus on certain procedural aspects of the relationship between trade and environmental policies. They are intended to guide governments in the development and implementation of trade and environmental policies with potentially significant effects on each other, and to enable policy-makers to reach better informed decisions<sup>3</sup>.

### *Trade liberalisation and the environment*

***Environmental problems are the result of market and intervention failures rather than of trade liberalisation.***

Trade may have significant effects, both positive and negative, on the environment and on sustainable development. In general, however, trade is not the root cause of environmental problems, which rather reflect market and intervention failures. For example, production and export subsidies and other trade barriers can potentially worsen environmental conditions by distorting resource values, input costs and market prices.<sup>4</sup>

The removal of trade barriers can have positive and negative environmental effects as well, both for developed and developing countries. Among the positive effects of trade liberalisation on the environment are improvements of the allocation of resources, the promotion of economic growth and of general welfare – provided effective environmental policies are implemented. The negative impacts of trade liberalisation on the environment generally relate to the expansion of trade in a context of market and other intervention failures.

As expressed in the recent UNEP/IISD handbook on Environment and Trade, "*the challenge is to exploit the opportunities and reduce the threats, and in so doing, to maximise the net positive contribution that trade can make to sustainable development*".

### *How does trade liberalisation impact on the environment?*

***Trade liberalisation can have ...***

Environmental effects of trade liberalisation can be manifold. To better understand and assess them, five types of effects are identified below: scale, structural, product, technology and regulatory effects.

***...scale...***

*Scale effects* are associated with the overall level of economic activity, i.e. the macro-economic effects of trade liberalisation. By promoting economic growth, as measured by GDP, trade liberalisation can have positive scale effects by providing resources needed for environmental protection or for investment in environmental technologies. In the absence of appropriate policies to protect the environment, or

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3. The procedural guidelines, adopted in 1993, address, in particular, transparency and consultation; trade and environmental examinations, reviews and follow-up; international environmental co-operation and dispute settlement.

4. Market failures occur when markets do not properly value and allocate environmental assets, leading to prices of goods and services do not reflect full environmental costs. The divergence of the apparent costs of an activity from its total cost is reflected in the loss of clean air and water and the degradation of environmental resources, e.g., the depletion of the ozone layer. Intervention failures occur when government interventions fail to correct for, create and/or further exacerbate market failures, e.g. subsidies and trade barriers leading to over-exploitation of natural resources.



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## RELATED DOCUMENTS

- The Environmental Effects of Trade, OECD 1994 (includes the 1993 procedural guidelines on trade and environment)
- Report on Trade and Environment to the OECD Council at Ministerial Level [OECD/GD (95) 63]
- Future liberalisation of trade in environmental goods and services: ensuring environmental protection as well as economic benefits [COM/TD/ENV (98) 37 and Annex]
- Environmental effects of liberalising trade in fossil fuels [COM/TD/ENV (98) 129]
- Environmental effects of liberalising fossil fuels trade: results from the OECD GREEN Model [COM/TD/ENV (2000) 38]
- Freight and the environment: effects of trade liberalisation and transport sector reform [OECD/GD (97) 213]
- Report on Trade and Environment [C/MIN (99)14]
- Trade measures in Multilateral Environmental Agreements, OECD 1999
- Assessing the Environmental Effects of Trade Liberalisation Agreements: Methodologies, OECD, 2000 (includes the 1994 OECD Methodologies for environmental reviews of trade policies and agreements)

