



# Second Workshop on the Environment

6/7/8 November 2002

Hermes Building, Friedensallee 254, 22763 Hamburg/Germany

Hosted by:



## Report

About 80 participants from 16 countries, including representatives from ECAs, the commercial banking and insurance community, industry and NGOs attended this *Second Workshop on the Environment*.

The workshop, principally drawing on case studies complemented by interactive elements, was designed to facilitate the exchange of environmental good practice and discussion on how to overcome some challenges of reducing environmental risks, and to strengthen contacts and cooperation between key financial players on the environmental aspects of their work.

This year's programme featured two very distinct topics:

- ❖ on day one of the workshop we examined Monitoring Provisions that are being used by different agencies and institutions, while
- ❖ on day two we focused on risks and business opportunities related to climate change, especially by supporting sustainable energy projects and technologies.

### Day 1 – Monitoring Provisions

With the implementation of the common approaches, ECAs have made a major step towards integrating sustainability concerns into their business operations. In accordance, Environmental Impact Assessments and Environmental Audits are carried out under certain circumstances to assess the potential environmental and social impacts of a project. However, only through appropriate monitoring and enforcement provisions ECAs can ensure that any identified negative environmental impacts do not indeed occur. Article 17 of the common approaches states: "Members should ensure that procedures are in place to monitor, as appropriate, the implementation of projects, to ensure compliance with all conditions of their official support." ECAs can and do pose such provisions as conditions for coverage, but experience with such provisions is only starting.

UNEP carried out a survey amongst ECAs, FIs and Development Banks to gather information on current practice and barriers that might exist, and presented results of this survey in an aggregated form.

This was followed by two very instructive and very well received case studies, one presented by ECGD, and one presented jointly by Coface and SACE.

Survey and the case studies will be available on the UNEP website ([www.uneptie.org](http://www.uneptie.org) and [www.unepfi.net](http://www.unepfi.net)) by early December.

Main results of discussions, as summarised by the facilitator of day one Diana Smallridge, triggered by these presentations were:

- ❖ Monitoring provisions are being implemented though experience is so far limited.
- ❖ Recognition that monitoring is necessary, but barriers exist.
- ❖ Monitoring provisions have to be adapted to specific projects and different stages of a project – construction, commissioning and post-implementation.
- ❖ Support for joint development of a "tool kit".
- ❖ More experience and dialogue needed between local authorities and all stakeholders, including involvement and commitment of the sponsors.
- ❖ Co-operation between ECAs is crucial; within ECAs co-operation between financial and environment teams is also crucial.

- ❖ Communication to banks and project developers about what to expect from ECA-supported transactions.
- ❖ ECAs need to be involved earlier on.
- ❖ Who has the leverage when insurance covers lenders or shareholders?
- ❖ What are the right incentives?
- ❖ Sponsors sometime have no direct influence or control over certain environmental concerns.
- ❖ In the event of an environmental “default”, what recourse should be applied (“nuclear bomb”)?
- ❖ The need to consider major versus minor breaches.
- ❖ To who is the compliance report made available?
- ❖ Who has the responsibility to do the monitoring and who monitors the monitor?
- ❖ Who is responsible for the environmental risk of new technology?
- ❖ Identification and mitigation of environmental risks is time-consuming.
- ❖ Requires a high level of sponsor involvement.
- ❖ More exploration of the issue of Environment Clean-Up bonds.

In the afternoon, participants worked within smaller groups on a fictitious case, a pulp and paper mill project. Each of the groups comprised a facilitator and different stakeholder identities (ECA, commercial bank, project proponent, local government and local NGO). Each of the “stakeholders” was given a position brief, designed to simulate thoughts on the various positions. The task of each group was to jointly design a system that ensures appropriate:

- ❖ monitoring of an environmentally sensitive project, including who monitors, how and when,
- ❖ reporting to one or more relevant stakeholders, or to interested third party stakeholders,
- ❖ recourse should there be non-compliance to an undertaking by one of the stakeholders or the occurrence of an environmental event having an impact on the financial and/or reputation risk of one or more relevant stakeholders.

The group’s facilitator reported the outcomes of discussions to the plenary session.

All materials of the interactive session will also be available on the UNEP website.

## **Day 2 – Climate Change – Risks and Opportunities**

Building on discussions of last year’s *Workshop in the Environment*, day two looked at risks and opportunities for ECAs related to climate change, one of THE major challenges of the 21<sup>st</sup> century. The focus of discussions was on the energy sector, and how ECAs could help mitigate negative effects by supporting sustainable energy solutions.

Andrew Dlugolecki, the facilitator of day two, highlighted both the affects of climate change on financial institutions and the importance to incorporate climate change considerations into FI’s overall business plans. He stressed the important role these institutions can play, including ECAs, in delivering market solutions, including the establishment of sound emissions trading markets and provision of innovative financing for investments in clean energy technologies.

Hermes presented the Kyoto flexible mechanisms, Joint Implementation, Clean Development Mechanism and Emissions Trading, and whether and how those could impact ECAs’ operations, and whether and how ECAs could use these instruments.

EKN then presented a study that evaluated the GHG footprint of their current support operations.

This was followed by a presentation of a UNEP FI study on “Climate Change and the Financial Sector” presented by Innovest. This study comes in three parts (CEO brief, Module 1–Threats and Opportunities, Module 2-Blueprint for Action) and highlights major risk posed by climate change to the global economy, identifies barriers to more proactive action and recommends next steps.

Gerling NCM presented its Climate Project and specifically a product providing credit insurance for emissions trading.

For the European Wind Energy Association, we had two presentations highlighting state of the art of wind energy technology, barriers to market uptake, and what was needed from a wind technology exporter's perspective to further exports.

Main outcomes of discussions were:

- ❖ Improved communication beyond the workshop amongst ECAs is essential if climate change is to become a consideration in the support decision-making of the agencies. The formation of strategic working groups was proposed to take the workshop discussions to the 'next level'.
- ❖ Kyoto mechanisms could be the vehicle to kick-start the emerging markets worldwide but the right signals need to be provided by policy-makers. ECAs could play an important role in the realization of such projects.

In the afternoon, we split again in smaller working groups to brainstorm about innovative ideas as to products and services ECAs could offer to encourage the further development of sustainable energy projects and technologies. Each breakout-group was introduced by a short presentation by its respective moderator. After lively discussions in the groups, highlights of these discussions were then reported back to the full group.

- ❖ **Relevance of emissions trading for ECAs and risk transfer solutions in emissions trading**  
Introduced and facilitated by Armin Sandhövel of Dresdner Bank and Julian Richardson of Marsh  
The objective of this group was to explore how emissions trading could positively or negatively set the framework of project viability and how ECA's could recognise this factor through e.g. analysis, procedural changes, etc.

Summary of discussions:

- Need for awareness raising on ET
- Risk identification
  - Commercial vs. ECA, Why should ECAs be involved?, What role would they have?
  - What are related political, technical and market risks?
- Need to understand the process
- Carbon market recognition

- ❖ **Opportunities in CDM/JI projects**

Introduced and facilitated by Martin Whittaker of Innovest

The objective of this group was to review JI and CDM procedures, how they will affect ECA activity in the near and medium term, and what changes would be advantageous (in either the Kyoto mechanisms, or in ECA activity).

Summary of discussions:

- Need for education/knowledge development
- What is the point of entry for ECAs?, Could ECAs deliver information to the exporters on CDM?, Could ECAs be used as government policy instruments?  
There are many concerns around the potential use of the mechanisms, e.g. transaction, liquidity and uncertainty.
- CDM projects will have to fulfil certain criteria – how will this be linked to the common approaches? CDM should not be a means to pursue "dirty projects"
- CDM should not be a stand-alone activity, but rather integrated into other sustainability instruments.
- Benchmarking of projects – Methodological aspects to adjust coverage conditions and risk assessment

- ❖ **Budgets for RETs**

Introduced and facilitated by Martin McKee of ECGD

The objective of this group was to discuss how renewable energy technologies could be supported by setting budgetary quotas (numerical or as a percentage), and how such methods could be designed and implemented, or what alternative approaches could be appropriate.

Summary of discussions:

Taking ECGD's pledge of 50m/annum for RETs as a starting point, the following questions were raised:

- Is there a demand for ECA finance?  
Apparently, one problem is to receive demand for such RET projects, and to identify projects suitable for support. In order to generate demand, closer contacts with project developers, equipment providers and end buyers and their respective countries are needed. Another problem identified was that ECAs are not the only institutions involved.
- Are special terms needed?  
There is already a lot of flexibility in the existing framework, such as a 12-year exemption for power plants, but maybe longer timeframe is needed. Therefore, it was suggested to do some research on RET projects and what terms they would require.

#### ❖ Accessing SMEs

Introduced and facilitated by Murray Cameron of the European Photovoltaic Industry Association  
The objective of this group was to identify how ECA's could support SME projects in renewable energy/energy efficiency, through changes in products, processes, education, and organisation.

Summary of discussions:

- Participants in the following sub-sectors are all SMEs: wind, solar, small hydro, biomass, wave energy, recycle, geothermal.
- Barriers or challenges faced by SMEs are the following:
  - Lack of awareness of both SMEs and ECAs
  - Company risk/ project size
  - Critical mass for exports
  - Lack of regulatory framework
- Possible solutions consist of:
  - Consulting b/b ECAs and RET SMEs
  - Marketing to SMEs
  - Training for ECA staff

#### ❖ Energy Sector Strategies

Introduced and facilitated by Andrew Dlugolecki of Andlug Consulting

The objective of this group was to examine the prospects for the various branches of the energy sector in the light of economic and environmental factors, identify likely changes, and translate this view into implications for ECA strategy.

Summary of discussions:

- Overview of RETs
- Desirability of power plants for developing countries
- ECA support is demand driven and demand for RET projects is lacking
- OECD terms and arrangements are geared to conventional projects – Should there be a special sector arrangement for RETs?
- Need for higher O&M level required for RETs (currently 15% -> 25%)

### **Outcomes - Next steps**

Overall, the Workshop provided the participants with a unique opportunity to gain a deeper understanding of the issues around climate change, the Kyoto Protocol mechanisms and how this is relevant to ECAs, and to exchange information and experience on importance, design and implementation of monitoring provisions.

There was a request to continue this series of workshops, and some ECAs already expressed interest in hosting and supporting the next event. It was mentioned that broader industry and NGO involvement would be useful.

In addition, UNEP is considering to take up the suggestions by participants to set up a group that would jointly develop a tool kit for monitoring provisions, as well as a mechanism to continue thinking about ways to support renewable energy technologies/projects. Next steps will be proposed after consultation with the Secretariat of the OECD ECG.