

poverty, climate and energy: the case against oil aid



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Justice Now

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Imagery Used

Cover Image, Large: *Woman tending her plot at Shell gas flare site, Rumuekpe.* Photograph by Elaine Gilligan, FoE EWNl.

Cover Image, Small: *Logging deforestation for palm oil production.* Photograph by Helen Buckland.

Back Inside Cover: *Shell flare at Rumuekpe showing kids sitting in close proximity to the flare, easily accessible to anyone in the village.* Photograph by Elaine Gilligan, FoE EWNl.

Back Cover: *Shell oil heads leaking at K-Dere, Ogoni.* Photograph by Elaine Gilligan, FoE EWNl.

1. The Motivation for this Briefing

While attention to climate change is growing globally, a climate policy contradiction is also growing: industrialized countries are trying to cap greenhouse gas emissions while simultaneously financing fossil fuel extraction and infrastructure through multilateral development banks (MDBs) and Export Credit Agencies (ECAs).

There are over a dozen major lending countries and four major Multilateral Development Banks (MDBs) involved in fossil fuel financing. Since the year 2000 there has been vigorous debate about whether development money should be invested in fossil fuel—intensive sectors of developing countries.

From a development perspective, the conundrum can be summarized as follows: both lending and borrowing governments understand that burning fossil fuels is one of the root causes of climate change, and that climate change could impede on development. On the other hand, there exists a widespread conviction that fossil fuels are central to development, and as a result, global development policy supports the use of public funding for fossil fuel extraction. We believe this policy is misguided on both climate and development grounds and must be ended.

2. Why Fossil Fuel Subsidies are Promoted

Generally, proponents of public financing for fossil fuel development argue that there are various ways in which funding development of the oil, gas and coal sector reduces poverty:

1 Fossil fuels are essential to **economic growth**, in part by increasing export revenues from oil and gas exports. According to the mainstream economic thinking, these resources will inevitably 'trickle down' to the poorest citizens. In addition, exploiting oil, coal

and gas resources will help countries pay off their external debt, freeing up money for social expenditures. Proponents argue that if developing countries want to realize economic growth by developing their oil, gas and coal infrastructure, then rich countries, which have done the same in the past, should support this objective via development assistance.

2 Developing countries will continue to depend on fossil fuels for most of their energy needs, because renewable energy is still too expensive. In order to ensure **access to energy**, development banks should support the development of these sectors. In this process, MDB involvement in oil, coal and gas projects could promote the adoption of the most energy-efficient and climate friendly technology.

3 The involvement of development banks in fossil fuel projects ensures that the **highest social and environmental standards** are used, mitigating any negative impact and therefore contributing to poverty reduction and environmental protection. It is better to involve development banks than leaving it to the private sector, who are less likely to consider the interests of society or the environment.

3. Why Fossil Fuel Subsidies do not Alleviate Poverty

However, the reality is different for the following reasons:

1. In countries of the Global South, development of fossil fuel sectors has historically been associated with less economic growth

The 'resource curse' is the phenomenon that describes how developing countries endowed with natural resources such as oil tend to have less economic growth than countries without these natural resources. For instance, the

World Bank's own Operations Evaluation Department (OED) found that during 1990–99 there was a negative relationship between extractive industry dependence and economic growth for all WBG borrower countries. Reasons may include a decline in the competitiveness of other economic sectors (caused by appreciation of the national valuta as resource revenues enter an economy), volatility of revenues from the natural resource sector, financial mismanagement, and political corruption (resulting from the massive financial inflows).¹

In societies that are corrupt and where resources are badly managed, the trickle down theory does not come into effect: export revenues from oil and gas resources tend to end up in the pockets of political elites. Often, there is little to trickle down. This is because the perceived need to attract foreign investment, also enforced by MDB prescribed policies, has led to a liberalization of rules and regulations for multinational corporations operating abroad. As a result, host governments often receive a minimal share of the revenue made by foreign investors.

Exploiting fossil fuel reserves is not always a nation's own choice. As part of a loan and debt relief package, institutions like the World Bank have required some of the poorest and most indebted countries to exploit their natural resources. Supposedly, that would generate the necessary revenues to pay off the debts. But in reality, this requirement often leaves countries no other choice than to continue on the fossil fuel exploitation path, while the revenues generated are minimal, as stated above.

Loans for oil and gas production lead to increasing debt. The debt burden in turn puts significant strain on government social expenditure, resulting in impacts on health and education systems, which disproportionately affect the poorest in society.²

2. Access to energy for the rich and for large industries

By assisting fossil fuel extraction in the South, the North is not 'helping' developing countries, but simply satisfying its own hunger for fossil fuels. Most oil and gas subsidies provide energy to northern consumers. A study by the Institute for Policy Studies revealed that some 82% of the energy produced by projects funded by the World Bank Group was actually exported to rich countries.³

Oil, gas and coal projects that are not destined for export, are often serving the electricity needs of large industrial users, rather than the poor. For example, the Tata Mundra Ultra Mega coal project in Gujarat, India, which was approved by the World Bank in April 2008, will provide energy for one of India's largest and richest corporations. Oil aid may lock-in dependence on oil and gas for many years to come, at a time when prices are rising and energy security is hard to come by. This lock-in will carry a heavy burden for developing countries that are fossil fuel importers. Conversely, the lost opportunity costs of not investing in renewable energy are immeasurable.

3. Standards are no guarantee

At the micro-level, oil, gas and coal extraction are among the most problematic projects. Conflicts arise around a lack of long-term employment opportunities, inadequate sharing of revenues, failing decision making procedures, conflict over land ownership and compensation, pollution, leakages and explosions, greater gender inequality and a spread of prostitution and HIV/AIDS resulting from an influx of job seekers. All development banks have an extensive set of social and environmental safeguard policies to mitigate these impacts. However the adequacy of these policies is questioned: they are vague, ambiguous and lack enforcement mechanisms.⁴

Even more problematic however, is the fact that these policies are often violated. Many projects,

such as the Chad-Cameroon pipeline (which was touted to become the World Bank's model project) and the Camisea natural gas pipeline in Peru have been poorly managed. This has led to continued tragedies, even with public funding, as documented by a series of complaints directed at the World Bank's Inspection Panel.⁵ Clearly, the World Bank and other MDBs are not able to enforce their own environmental and social standards in their projects, let alone ensure they benefit poor people.

4. The World Bank Continues to Defend Fossil Fuel Financing

In 2004, the World Bank's Extractive Industries Review found that "project funding in the extractive industries has not had poverty reduction as its main goal or outcome.[...]Increased investments have not necessarily helped the poor; in fact, oftentimes the environment and the poor have been further threatened by the expansion of a country's extractive industries sector".⁶

The report recommended that the World Bank Group should phase out investments in oil production by 2008 and devote its scarce resources to investments in renewable energy resource development.⁷ The review recommended an immediate end to coal financing, which had been languishing. However, the Bank's management rejected this recommendation, saying that "oil, gas and mining projects [...] remain an essential part of the development of many poor nations".⁸

More recently, in its proposal for new Climate Investment Funds, the World Bank has argued that "climate change should not be allowed to halt or slow the progress of developing countries, and approaches must take into account the double challenge of reducing global carbon emissions while also meeting the energy needs of the world's poor".⁹ With the Climate Investment Fund proposal, the World Bank emphasizes the 'transformational' potential of its lending, but on

closer inspection the plan reverts to spending on coal plants.¹⁰

5. What is the Proper Role for Public Subsidies?

The question is whether the right role for public financial institutions is to pressure companies into marginally more efficient or cleaner projects, or rather to catalyze a more fundamental transformation of energy and transport systems. Virtually all development proponents agree that additional energy capacity is needed in poor countries; and we and others argue that the best role for public financing is to support renewable energy.¹¹

Given that access to clean, affordable energy is a basic need, that extractive industries have failed to deliver poverty reduction benefits in the South, that atmospheric concentrations of CO₂ do not decrease from good intentions alone, and that a fossil fuel future is simply impossible for both rich and poor countries, what should be the role of public financing for development?

There is no question that environment and development solutions must take into account questions of equity, and no doubt that the wealthy countries must bear the costs of mitigating and adapting to climate change. Yet to continue to finance fossil fuel growth—whether in industrialized or developing countries—is to follow a path toward disaster. International financing for development must continue and increase, but in ways that catalyze a leap to climate friendly and socially just solutions. Insistence on copying the North's fossil fuel addiction is a failure of imagination that will doom all of us, whether we live in rich countries or poor ones, to a future of climate chaos and deep poverty.

Fortunately, there are better things to do with public money than to support the growth of oil, gas and coal in developing countries. Switching

away from fossil fuels will require investments, and those investments must be made by the wealthy countries. To harmonize the goals of climate protection and development, we must end oil aid and increase subsidies for renewable, sustainable energy options.

The funds currently going to MDBs are a limited resource and should be used to facilitate the development of renewable energy sources, such as solar thermal energy. Modest subsidies for

solar thermal plants would result in a price advantage over coal, and send signals to other investors.¹² Moreover, it would do this while increasing energy access within countries such as India and Botswana. Obviously, such initiatives only have real poverty reduction benefits if local stakeholders are also the key actors in decision making, implementation and ownership. The development of renewable energy infrastructure is an immense opportunity for the economic development of poorer countries.

Scope of Oil Aid

Since 2001, International Financial Institutions (IFIs) have provided over \$61 billion in loans, grants and guarantees to the oil and gas industry.¹³ At about \$2 billion per year, the World Bank Group is the largest multilateral funder in the sector, and the US Export Credit Agencies provide the most bilateral funding of any country, while Europe and Japan are also major funders. For some agencies, fossil fuel funding is actually increasing: oil and gas industry financing by the International Finance Corporation (IFC) of the World Bank increased by 165% from fiscal year 2007 to 2008, according to analysis by the Bank Information Center. Including Multilateral Development Banks and Export Credit Agencies, there are some 40 institutions providing at least \$8 billion per year, excluding coal.

These amounts are in addition to the estimated \$150-250 billion that national government provide to their domestic oil and gas industries, according to Sir Nicholas Stern.¹⁴ While the domestic subsidies are greater, multilateral loans and guarantees send important market signals that leverage even larger amounts of private money. As such, multilateral lending remains a key enabling element for large fossil fuel projects. Most of these projects extract and transport oil and gas for export purposes.

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- i See for example: <http://www.svt.ntnu.no/iso/ResourceCurse/Default.htm>
 - ii Reuters, "Ecuador plan seeks balance of environment, oil," July 23, 2007. <http://www.cnn.com/2007/WORLD/americas/07/23/ecuador.oil/index.html> accessed May 19, 2008.
 - iii Kretzmann and Vallette, "The Energy Tug of War: Winners and Losers in World Bank Fossil Fuel Finance", Sustainable Energy and Environment Network, Washington, D.C. April 2004.
 - iv Global Rights Rules & Responsibilities (GRRR) website, www.grrr-now.org.
 - v The World Bank Inspection Panel website, www.inspectionpanel.org.
 - vi Extractive Industries Review report, Ch 2: "Striking a Better Balance", <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTOGMC/0,,contentMDK:20306686-isCURL:Y~menuPK:592071~pagePK:148956~piPK:216618~theSitePK:336930,00.html#9>.
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 - viii International Finance Corporate website, <http://www.ifc.org/eir>, accessed 21 April, 2008.
 - ix World Bank report, "Proposed Climate Investment Funds", received by email, on file with Bank Information Center, Washington, D.C.
 - x World Bank report, "Design Meeting on Climate Investment Funds" CIF/DM.2.2 April 3, 2007.
 - xi David Wheeler, "Tata Ultra Mega Mistake: The IFC Should Not Get Burned by Coal", Center for Global Development, March 2008, available at http://blogs.cgdev.org/globaldevelopment/2008/03/tata_ultra_mega_mistake_the_if.php, accessed April 22, 2008.
 - xii David Wheeler, "Crossroads at Mmamabula: Will the World Bank Choose the Clean Energy Path?" Center for Global Development Working Paper #140, February 2008, available at <http://www.cgdev.org/content/publications/detail/15401>, accessed April 22, 2008
 - xiii Oil Change International, "Aiding Oil, Harming the Climate: a database of public funds for Fossil Fuels", December 2007, <http://www.endoilaid.org/wp-content/uploads/2008/01/aidingoilreport.pdf>.
 - xiv Sir Nicholas Stern, "Stern Review on the Economics of Climate Change", United Kingdom, October 2006

Justice Now



(For Chubby Williams & to the Memory of the Aboriginal poet, Gilbert)

By Nnimmo Bassey, poet and director of Environmental Rights Action/FoE Nigeria

Justice now!

No reconciliation ...without justice

Roasted skies

Smoked out clouds

Roasted roosters

On second half wings

Distant dreams of the coming doom

Long after the boom had burst

Justice now!

No reconciliation... without justice

Machetes slashing

Mangroves dis'pearing

Forests missing

Swamps drying

Machetes swirling

Slashing throats

Maiming hopes

If you think chilli is hot

Slide an inch closer

To Shell's gas flares

Justice now!

No reconciliation ...without justice

Minerals...oh minerals

Why must you hide?

Why, beneath lake Cowal?

Uranium, oh uranium

Why spread out in Papa's land?

Justice now!

No reconciliation ...without justice

Brown skies

Smoked out clouds

Canopies for dialogues with the deaf

AK47: mouth piece of extractive industry

Gun boats & bazookas: their drum beat

Justice now!

No reconciliation... without justice

Drawn into the belly of Tap Gallery

Warm handshakes

Explosions of peace

Echoes of hope from memories lost

Justice now!

No reconciliation ...without justice

Once a past

Of proud dancers

Proud singers

A proud people

A noble lot

Pushed to the brink

Surviving by will

Justice now!

No reconciliation ...without justice

Explosions of peace

Tidal waves of whispering memories

A time it was when we shared

Love

*"We have been here
since the first sunrise
Justice Now"*

Love for the land

Love for the seas

Love for the trees

Love for the birds

Love for our stones

Till

Drillers came

And miners' axes swung

Justice now!

No reconciliation... without justice

This drilling

This killing

This stealing

This maiming

This raping

This spilling

This desecration of Papa's land

Now we ask as the singer did:

Who owns Papa's land?

Justice now!

No reconciliation ...without justice

Brown skies

Smoked out clouds

This the stuff of carbon trade

Stand up people

Rise

Stop the Cowal mines

Save the lake

Stops the drillings

Save our land

Stop the mine

Save our mind

Justice now!

No reconciliation... without justice

Come

Listen,

Come to the

Tent Embassy

Hear us,

Respect us

Listen, the land is ours

We have been here since the first sunrise

Justice now!

No reconciliation ...without justice

Justice now!

No reconciliation... without justice

For more than 25 years, wealthy countries have been using aid and other foreign assistance to subsidize the expansion of the international oil industry, a practice known as “Oil Aid”. International financial institutions like the World Bank, along with bilateral aid agencies and Export Credit Agencies, provide billions of dollars a year in direct financial support to help oil companies like Exxon Mobil, Royal Dutch Shell, BP and Halliburton expand production overseas. The overwhelming majority of this money goes to projects that export the oil back to wealthy countries, while it does not help to reduce poverty. This briefing explains why fossil fuel subsidies should end.



We are a coalition of organizations working together to end oil aid. We are part of a social movement that addresses the inter-related issues of oil, debt and climate change. We work with national and international networks to: support affected communities, educate and mobilise the public and influence public policy. We aim to achieve debt cancellation in the South; overcome the political barriers to transition away from oil dependence; and hold private and public financial institutions accountable for deforestation and climate destabilization.

Read more about us and about our campaign at: www.endoilaid.org



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