



EXPORT-IMPORT BANK OF THE UNITED STATES

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Carbon Policy Implementation Plan

Background:

On November 3, 2009, the Board of Directors of the Export-Import Bank of the United States approved the Ex-Im Bank Carbon Policy, making the Bank the first export credit agency to approve a policy addressing the climate change impacts of transactions receiving its financial support. The Board directed senior management to develop an implementation plan to ensure that Ex-Im Bank's programs and policies comply with its Carbon Policy.

The Bank's Carbon Policy (Attachment B) focuses on three areas: establishing financing incentives for low to zero carbon dioxide or equivalent (CO₂) emitting renewable energy exports, facilitating CO₂ reductions through support of energy efficiency exports and other measures, and improving transparency in the Bank's tracking and reporting of CO₂ emissions. The policy recognizes the environmental benefits of renewable energy and energy efficiency projects and the adverse environmental effects associated with projects that emit high levels of CO₂. As such, its primary goal is to increase support for low to zero carbon emitting projects and restrict support for high carbon intensity projects. The policy is consistent with international efforts to reduce CO₂ emissions and with Ex-Im Bank's mandate to consider the potential beneficial and adverse environmental effects of export transactions that receive its financial support.

To further the goals of the Carbon Policy, Ex-Im Bank's management has approved the following Carbon Policy Implementation Plan.

Carbon Policy Implementation Plan:

1. Additional Incentives for Renewable Energy Projects.

The following two program changes will help Ex-Im Bank expand its support for renewable energy exports that produce low to zero CO₂ ("Renewable Energy Projects"). Increasing Ex-Im Bank support for Renewable Energy Projects is an anchor of the Carbon Policy since projects utilizing renewable energy emit very low levels of greenhouse gasses compared to traditional fossil fuel-fired power plants (gas, oil, or coal).

- Option for Exposure Fees to be paid in installments over the life of the loan for Renewable Energy Project transactions. The buyer would pay the Exposure Fee on the same dates as the interest payments, in effect making the Exposure Fee part of the interest margin. (Ordinarily, Ex-Im Bank requires its Exposure Fee to be paid up front in a lump sum, or as pro rata as the loan is disbursed.) This option reduces the burden

of high exposure fee rates associated with the long tenors available to Renewable Energy Projects. It also has the benefit of making the fee structure for Ex-Im Bank financing more competitive with that offered by other export credit agencies that allow their fees to be paid over the life of the loan.

- Option to set the Commercial Interest Reference Rate (CIRR) at time of Board Approval, rather than CIRR being set at the first disbursement. Ex-Im Bank charges CIRR, a fixed rate, as the interest rate for its direct loans. This option will give borrowers additional predictability regarding the financing costs for their renewable energy transactions.

2. Solar Fast Track– Guidelines for Solar Deals between \$3-\$10 MM.

This initiative will establish clear requirements, provide modeling and analytical support, and offer simplified requirements for legal services, security interests, and documentation. This streamlined approach will maintain acceptable credit standards without requiring the level of due diligence, outside advisory input and complex covenants and documentation required for other structured transactions.

3. Energy Efficiency Exports eligible under the Environmental Exports Program.

In addition to renewable energy, climate change considerations have also directed Ex-Im Bank's focus to energy savings and the role that energy efficiency exports can play in addressing climate change. The scope of energy efficiency exports eligible for the Environmental Exports Program¹ will be expanded to include energy efficiency projects specifically designed to reduce energy consumption in downstream, end-use applications; exports designed to reduce energy consumption and CO₂ intensity in existing, brownfield fossil fuel plants, resulting in a significant reduction in the plant's level of CO₂ emissions; services that foster energy efficiency such as energy audits, training, and services implemented directly by owners or contractors (such as energy service companies); hybrid and electric vehicles, high MPG vehicles, and public transportation projects; and energy efficiency building products. An expanded definition of energy efficiency exports assists Ex-Im Bank's outreach to this category of exporters.

4. Renewable Energy Facility.

Ex-Im Bank is exploring other innovative ways to expand its ability to support Renewable Energy Projects and compete more effectively against other export credit agencies.

5. Multilateral Efforts.

Ex-Im Bank will continue its efforts to level the playing field for U.S. exporters by advocating for U.S. government proposals in international forums, such as the Organisation for Economic Co-operation and Development (OECD) and Berne Union, in support of the goals of the Carbon Policy. To that end, Ex-Im Bank will encourage export credit agencies, multilateral

¹ The Environmental Exports Program offers enhanced terms and conditions for the purchase of qualified U.S. environmentally beneficial goods and services, including the maximum terms permissible under Organisation for Economic Co-operation and Development (OECD) guidelines, capitalization of interest during construction, and local cost coverage equal to 30% of the U.S. contract price.

development banks and other lending institutions to adopt policies and procedures similar to Ex-Im Bank's Carbon Policy and Carbon Policy Implementation Plan. In particular, Ex-Im Bank will work with other U.S. government agencies to find opportunities to (a) expand OECD enhanced financing incentives for low to zero carbon emitting projects and high energy efficiency projects; and (b) expand OECD due diligence and, where appropriate, forge an OECD agreement to restrict export credit agency financing for high carbon intensity projects. At the Berne Union, Ex-Im Bank will continue to raise awareness of the various policy incentives and disincentives available for renewable energy and high intensity carbon projects, respectively, that will help inform future unilateral and multilateral actions of all Berne Union members.

6. Transparency.

Ex-Im Bank will improve the reporting of CO₂ emission data for Category A and B projects on the Ex-Im Bank website and in its annual report. This will include reporting CO₂ emissions associated with fossil fuel projects in the following categories: oil and gas exploration projects, refineries, power plants, oil and gas production projects, liquefied natural gas (LNG) plants, and pipeline projects. The Bank will expand the scope of its CO₂ tracking to include all long-term transactions that produce more than 50,000 tonnes of CO₂ per year. For Renewable Energy Projects supported by the Bank, it will also track and report the amount of CO₂ savings as compared to conventional power generation. In addition, the Bank will work to encourage multilateral development banks, export credit agencies and other international lending institutions to calculate and report publically the CO₂ emissions associated with the projects they finance. Ex-Im Bank's goal is to have export credit agencies agree to a common process for tracking CO₂ that may be reflected in a revised version of the OECD Common Approaches.

7. Other Actions.

Ex-Im Bank will initiate a variety of other actions to expand its support for renewable energy and energy efficiency transactions, and encourage fossil-fuel projects to incorporate climate-friendly features. Ex-Im Bank will continue to promote the \$250 million target for Renewable Energy Projects and prioritize the processing of Renewable Energy Projects. The Bank will explore partnering with banks experienced in Renewable Energy Projects. Ex-Im Bank will encourage borrowers to utilize carbon credits, will incorporate certified carbon credit revenues into its credit analysis, and will develop criteria for financing mitigation/offset projects. It will develop a mechanism to identify and track energy efficiency transactions (similar to that for renewable energy transactions). Lastly, the Bank will implement a communication strategy to disseminate information about its Carbon Policy-related initiatives.

8. Enhanced Due Diligence Process for High Carbon Intensity Projects.

Ex-Im Bank will adopt a rigorous enhanced due diligence process for all high carbon intensity projects, with an early review of CO₂ issues by the Board of Directors. The Bank will also impose additional requirements on all high carbon intensity projects. Early review by Ex-Im Bank's Board of Directors will provide the Bank with a flexible, transparent process to review the environmental issues associated with high carbon intensity projects and, if appropriate, decline a transaction due to its detrimental environmental effects at an early stage. These new procedures are outlined in Attachment A, and will be implemented through an addendum to Ex-Im Bank's Environmental Procedures and Guidelines (Annex G).

Enhanced Due Diligence Process for High Carbon Intensity Projects

Ex-Im Bank will adopt a rigorous Enhanced Due Diligence Process to evaluate the environmental and climate change issues raised by high carbon intensity projects. The Bank recognizes that some projects may not be able to meet the environmental requirements set forth below and would be declined. Ex-Im Bank will approve an addendum to its Environmental Procedures and Guidelines setting forth the technical requirements for the Enhanced Due Diligence Process for all high carbon intensity projects. The Enhanced Due Diligence Process described below will apply to applications received after, or pending as of, March 9, 2010.

1. Fossil Fuel Projects Grouped by Carbon Intensity.

Ex-Im Bank's Engineering and Environment Division will calculate the estimated carbon intensity of all pending fossil fuel projects. Projects will be categorized based on their carbon intensity levels: Low, High, and Highest. The Bank will treat projects in each of the three categories differently.

Category	Applicable Technologies	Ex-Im Bank Treatment
Group I: Low less than ~700 grams of CO ₂ /kWh*	<ul style="list-style-type: none"> IGCC (coal gasification) and IGCC equipped as CCS-ready (Carbon Capture and Sequestration). Gas-fired power plants (simple cycle and combined cycle). Most oil-fueled power plants. 	Standard review (e.g., no additional requirements).
Group II: High between ~700 and ~850 grams of CO ₂ /kWh*	<ul style="list-style-type: none"> Most coal and some inefficient oil-fueled power plants. This includes some subcritical and most supercritical coal-fired power plants. It also includes some less efficient IGCC (coal gasification) power plants. 	Enhanced Due Diligence Process: Early Board review of CO ₂ issues Alternatives Analysis, Project must use the Best Appropriate Technology , Project must fit within the country's approved Carbon Growth Strategy, Discretionary imposition of additional requirements, and Preliminary Environmental Review Fee assessed.
Group III: Highest more than ~850 grams of CO ₂ /kWh*	<ul style="list-style-type: none"> Includes the most inefficient coal fired power plants (e.g., sub-critical boiler plants). 	Ex-Im Bank will require verifiable offsets reduce the project's CO ₂ intensity to a level that would fit within Group II.

* These are representative benchmarks for fossil fuel power plants based on data from the Environmental Protection Agency and other sources. Emissions from most other industrial sectors fall below the carbon intensity limits for power production and are therefore not affected. Certain intensity benchmarks for other sectors such as cement plants will be developed within six months.

2. Enhanced Due Diligence Process for All High Carbon Intensity Projects

A. **Early Board Review of Climate Issues:**

As detailed below, staff will prepare an Enhanced Due Diligence Memorandum to the Board of Directors regarding a project's CO₂ intensity and issues related to climate change and the environment. Consistent with Section 11 of the Bank's Charter, the Board will either direct staff to proceed with processing the transaction or decline it for environmental considerations. This approach provides the Bank with a flexible, transparent process to review the environmental issues associated with high carbon intensity projects and, if appropriate, decline a transaction at an early stage due to its detrimental environmental effects. This process will commence after receipt of an application and all necessary information set forth in Annex G of the Environmental Procedures and Guidelines. This review would precede the standard credit, legal and environmental reviews.

B. **Requirements:**

At a minimum, to be recommended to the Board of Directors, a high carbon intensity project must satisfactorily address the following requirements set forth in Annex G of the Environmental Procedures and Guidelines:

- Alternatives Analysis. The project must provide a satisfactory analysis of alternatives showing that the buyer considered a range of alternatives and chose the proposed project technology and fuel as the least cost alternative available.
- Best Appropriate Technology. The project must employ the best appropriate technology, taking into account the buyer and the country.² This analysis will include comparisons to other sources of power production in the country/region and the relative efficiency of selected technology.
- Low Carbon Growth Strategy. The host country shall have developed a Low Carbon Growth Strategy and the project must be consistent with the results and objectives of that strategy.³

C. **Due Diligence Memorandum:**

In addition to an analysis of the above requirements, the Enhanced Due Diligence Memorandum will include the following:

- Other Relevant Factors: An analysis of the following: the project's CO₂ intensity as well as its annual and lifecycle CO₂ emissions; discussion of CO₂ and climate change issues relevant to the project; the existence of any carbon mitigation plan to reduce or offset emissions; evaluation of possible mitigation actions or offsets, and their costs; the potential impact for the exporter if the transaction is declined; financial considerations such as projections about regulation and compliance costs that could affect the project's profitability; estimates of the social cost of carbon (using the U.S. Government standards); brief overview of Ex-Im Bank portfolio of projects that emit

² This standard is more flexible than "best available technology," which may not be feasible from an economic, resource, or technological perspective in developing countries.

³ This requirement relates to the World Bank initiative to assist countries in developing a framework for strategic, sustainable, and cost-effective low carbon growth that limits climate impacts.

CO₂, and other factors that would argue in favor of the project or against the project. It would also summarize any comments received from outside stakeholders, including non-governmental organizations.

- Options to Impose Additional Requirements. As part of the early Board review process, the Board will have the discretion to impose as a condition of its environmental approval (a) a fee increase or term reduction to increase the cost of Bank financing for the project, or (b) some degree of widely-accepted offset or mitigation measures to reduce the carbon intensity of the project. The Enhanced Due Diligence Memorandum will outline those options, and include an estimate of costs and other relevant factors.
- Staff Recommendations. The Due Diligence Memorandum will conclude with staff recommendations to the Board of Directors. This will include the Engineering and Environment Division's technical evaluation of the degree to which the project met the requirements set forth in Annex G of the Environmental Procedures and Guidelines and any additional requirements staff recommends the Board impose on the project as a condition of its approval.

D. Environmental Review Fee of 0.1%:

All high intensity carbon projects would be charged a preliminary environmental review fee of 0.1%, up to \$25,000, to cover the cost associated with the Enhanced Due Diligence Process. If the Board directs staff to proceed with the transaction and later issues a final approval, the fee would be rebated. The amount of the fee and its treatment would be identical to those presently used for preliminary commitments.

E. Additional Mandatory Offset Requirement for Group III (Highest Carbon Intensity Projects):

The Bank will require verifiable offsets satisfactory to Ex-Im Bank of sufficient impact to reduce the CO₂ intensity of the transaction to a level that would fit within Group II. Ex-Im Bank will provide guidance on the scope of acceptable offsets, which could include retrofitting inefficient boilers, efficiency improvements, and renewable energy projects. The Enhanced Due Diligence Memorandum will include the Engineering and Environment Division's determination as to whether the buyer meets the offset requirement.



Export-Import Bank of the United States

Carbon Policy

The Export-Import Bank of the United States (Ex-Im Bank) acknowledges that broader international negotiations on climate are currently taking place in many fora, and domestic policies are currently under development by Congress and Federal agencies responsible for establishing and implementing the nation's environmental policies. Accordingly, Ex-Im Bank recognizes that developments in the climate arena require that it maintain a flexible and responsive approach towards the Carbon Policy and its implementation, while continuing to be a leader on these issues whenever possible. In approving the Carbon Policy, the Board of Directors recognizes the steps already taken by Ex-Im Bank's management to increase the Bank's support for renewable energy exports, including additional resources devoted to the promotion of Ex-Im Bank financing for these exports, expanded repayment terms for renewable energy transactions, and increased transparency in the tracking and disclosure of per project carbon dioxide emissions.

Financing Incentives for Very Low to Zero Carbon Dioxide-Emitting Renewable Energy Exports

Ex-Im Bank will increase export credit support for U.S. renewable energy exports that produce very low to zero carbon dioxide or carbon dioxide equivalent of greenhouse gases (CO₂) by increasing the resources devoted to promotion, marketing, and execution of such financings.⁴ Ex-Im Bank will establish a \$250 million renewable energy facility and consider the introduction of a full range of incentives, including those terms available under the Environmental Exports Program. Ex-Im Bank will identify appropriate incentives and programmatic changes and publically identify specific actions to implement these changes to facilitate the purchase of such renewable energy exports by foreign buyers. Ex-Im Bank will encourage export credit agencies, multilateral development banks and other lending institutions to adopt similar renewable energy promotion policies.

⁴ Greenhouse gases, consistent with Executive Order 13514, are defined to include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride.

CO₂-Reduction through Energy Efficiency Exports and other Measures

Ex-Im Bank will adopt new measures to support exports that contribute to substantial increases in energy efficiency. Ex-Im Bank will expand the scope of energy efficiency exports deemed eligible for its Environmental Exports Program. The Bank will also actively market and promote its energy efficiency exports initiative, with a focus on end-use, downstream energy efficiency, such as residential, commercial, and non-fossil fuel industrial activities (including zero net energy building technology).

Ex-Im Bank will provide financing support for evolving technologies that reduce CO₂ emissions in the production of energy. It will develop measures to encourage foreign buyers to seek available, commercially viable technology to reduce the carbon footprint of fossil fuel projects. While maintaining the competitiveness of U.S. exporters, Ex-Im Bank will develop initiatives to finance aspects of project development that reduce or mitigate CO₂ emissions, such as effective carbon capture and sequestration technology. Through the Organisation for Economic Co-operation and Development (OECD), Ex-Im Bank will advocate for the availability of financing incentives for low to zero CO₂-emitting projects, a common methodology for evaluating and taking into account the social cost of carbon, and disincentives for high intensity fossil fuel projects. Ex-Im Bank will encourage export credit agencies, multilateral development banks and other lending institutions to adopt similar CO₂ policies, including encouraging transparency and the involvement of stakeholders. Ex-Im Bank will continue to evaluate all transactions for compliance with its environmental procedures and guidelines.

Transparency in the Tracking and Reporting of CO₂ Emissions

Ex-Im Bank will explore ways to further improve its transparency in the tracking and reporting of CO₂ emissions from projects it supports. It will continue to make available the estimated amounts of CO₂ emissions expected to be produced from pending Category A and B projects on its web site and encourage other financial institutions to do the same.⁵ Ex-Im Bank will continue its dialogue with stakeholders to ensure that it employs the most appropriate methodology of estimating and tracking the CO₂ emissions from Category A and B projects it supports. Ex-Im Bank will report CO₂ emissions associated with Category A and B fossil fuel projects in its annual report by project categories, and advocate for the adoption of comparable transparency measures by other OECD-member export credit agencies. In addition, Ex-Im Bank will advocate within the OECD and other multilateral fora for the full reporting of CO₂ emissions associated with appropriate energy and non-energy projects including manufacturing and agriculture.

⁵ Ex-Im Bank defines Environmental Category A projects as large greenfield projects that have potentially significant environmental effects, or projects located in, or impacting, environmentally sensitive sites. It defines Category B projects as expansions, upgrades, and projects having limited environmental effects or impacts that are less than Category A projects.