



CHATHAM HOUSE

Export credits, illegality risks and SFM

Jade Saunders

Associate Fellow, Energy, Environment & Development Programme, Chatham House

ITTO Forest Investment Forum, Cancun
April 2006

Presentation structure

- What are export credit agencies
- What support do they provide to forestry sectors
- Trends in ECA and private finance
- FLEGT implications for EU ECAs
- The case for reform
- Reform recommendations
- Implications for legal and sustainable forestry
- Challenges
- Conclusions and next steps



What are Export Credit Agencies?

- Government agencies or para-statal organisations
- Provide subsidised guarantees, insurance and loans
- Operate primarily in emerging markets
- Support 10% global exports/trade
- Disburse twice total MDB investment
- Primary aim is to promote their domestic industries in risky environments



How are ECAs governed

- OECD Arrangement on Officially Supported Export Credits (The Arrangement)
- WTO Agreement on Subsidies and Countervailing Measures
- OECD Recommendation on Common Approaches on the Environment and Officially Supported Export Credits (The Common Approaches)
- Unilateral government policy/standards



What support do they provide?

- Political risk insurance
- Loans on favourable terms
- Flexible facilities
- Positive investment funds



What relevant sectors do they support?

- Project finance
- Forestry plant export
- Processing machinery export - Pulp and paper
- Forest management infrastructure
- Extractive/infrastructure projects in forest areas



Financial context and trends

- MDG financial requirements
- ECAs in transition economies (lower standards)
- Short-term finance increasingly commercial
- Emerging market finance increasingly commercial
- Reputational risk – The Equator Principles



ECAs and the FLEGT licensing scheme

- Voluntary bilateral agreements between EU and key EU producers
- Require operators to be licensed according to 'stakeholder definition of legality'
- Chain of custody from point of production to point of export
- Reversed presumption of innocence
- Leverage rests on product coverage



ECAs and EU public procurement policies

- EU Member States to develop public procurement policies for forest products
- 5 Currently operating
- Baseline legality verification, variant sustainability certification
- Reversed presumption of innocence
- Wider product coverage
- Legal restriction on social criteria



The case for ECA reform

- Reduced demand for services
- Well-documented environmentally-damaging case studies:
 - Asia Pulp and Paper
 - Camisea pipeline
 - Chinese pulp expansion
 - Opening Russian forests
- New economic/financial paradigms



'Do no harm' reform proposals

- Upwards harmonisation of safeguards
- Increased transparency
- Accountability/dispute resolution mechanisms
- Adoption of agreement on sustainable debt
- Implementing commitments to deter corruption



'Positive' reform proposals

- Lobby transition ECAs to join framework agreements
- Amend The Agreement to allow:
 - Sectoral investment strategies
 - Longer support terms
 - Increased local cost allowances
 - Flexible repayment terms
 - More integrated relationship with development assistance
- Local currency financing
- Bundling projects to reduce risk and administration



Implications for legal forestry and SFM

- Providing risk insurance which lasts the length of a sustainable forest cycle
- Requiring project minimum standards for consultation with affected communities
- Establishing minimum local costs and benefit sharing for supported projects
- Adopting revenue transparency requirements along the lines of the EITI
- Requiring legality verification/sustainability certification of raw material supplies



Challenges

- Race to the bottom with emerging market ECAs
- Low transaction cost investment model
- Lack of internal capacity
- Reactive remit
- No acceptance of responsibility
- No progressive forum for discussion



Conclusions

- Reform or die!
- Clear potential for legality verification and SFM certification to be used as tools for responsible investment by ECAs
- FLEGT Action Plan increasing pressure on EU ECAs



Next steps

- Redraft case studies paper
- Work with EU ECAs to understand and develop safeguard policy responses to FLEGT
- Explore potential for SFM fund



Thank you

jsaunders@chathamhouse.org.uk

www.illegal-logging.info

