

**Testimony Brent Blackwelder, President, Friends of the Earth US
before the House Committee on Financial Services Hearing
Examining the Administration's Proposal to Establish a Multilateral Clean
Technology Fund, June 5, 2008**

Introduction

Friends of the Earth-US appreciates the opportunity to testify before the House Financial Services Committee concerning the Administration's proposal to establish a multilateral clean technology fund. Friends of the Earth-US is the U.S. voice of the world's largest environmental advocacy network, Friends of the Earth International, uniting 69 national member groups and some 5,000 local groups on every continent. We work to protect the rights of all people to live in a safe and healthy environment, both at home and around the world.

Our goals are to protect the health of the planet and to promote a socially just world. For 25 years, Friends of the Earth has campaigned to hold powerful institutions involved in international development accountable to higher standards of environmental quality, social justice, and democratic governance. In 1983, Friends of the Earth helped launch a successful movement that spurred the creation of the first environmental and social standards at the World Bank Group and other international financial institutions.

Fighting global warming in a just and equitable manner is at the heart of Friends of the Earth's work. Climate destabilization affects everyone, but the world's poorest people will bear the brunt of its impacts, even though the United States and other industrialized countries are largely responsible for the greenhouse gas pollution that causes climate change. Responses to climate change must be aggressive and immediate, just and equitable, and must take into consideration the disproportionate role that the United States has played in creating global warming.

Virtually the entire environmental community, including Friends of the Earth, believes that clean technology transfer is a critical component of solving global warming and an important part of any global deal to address the climate crisis. We applaud Congress's recognition of the role that the U.S. can and must play in facilitating technology transfer to those countries most in need of a clean energy transformation.

We come before this Committee with two fundamental concerns about the World Bank's involvement in the Clean Technology Fund (CTF) proposal that has been put forward by the Administration. Our first concern is that the Bank does not define what it means by "clean", leaving the door open for dirty technologies to be among those transferred. Our second concern is that the World Bank,

because of its mandate and track record, is not the right institution to control the CTF.

Part I

Our first concern is the lack of definition of clean technology. We believe that Congress must ensure that clean technology funding is indeed used for truly clean technology. Clear definitions of what does – and what does not – constitute clean technology are obvious pre-requisites to ensure that funds are used to transfer technologies that do not perpetuate the problem of rising greenhouse gas emissions. Clean technology funds should catalyze a rapid transition to renewable energy by subsidizing the cost gap between high greenhouse gas emitting technologies and clean technologies, such as solar thermal.

Top peer-reviewed scientists are telling the public that we must reduce carbon emissions quickly over the next decade in order to avoid serious destabilization of the earth's climate. This means clean technology funding must be transformational; that is, such funding should accelerate the shift into new energy and transportation systems, rather than taking the "band-aid approach" of making individual projects marginally or incrementally less dirty.

According to the World Bank's Proposal for a Clean Technology Fund, "the CTF will seek to demonstrate how financial and other incentives can be scaled-up to accelerate deployment, diffusion and transfer of low-carbon technologies." Funded "actions" are to be "transformational." However, neither "clean" nor "transformational" nor "low-carbon" is defined. What is clear is that limited public resources, including US taxpayer money, could potentially be used to fund massive energy projects that are only somewhat less polluting than the dirtiest existing projects.

Although the World Bank pays rhetorical tribute to a transformational shift toward a low-carbon economy, it has not exhibited a commitment through its actual energy lending over the past 25 years. It had to be pressured into its current commitment to increase renewable energy and energy efficiency lending by 20 percent each year for 5 years – a commitment from which the private sector arms of the World Bank Group are exempt. And while talking about increasing renewable energy, the Bank is moving quickly to finance and help lock in high carbon energy paths in the fastest growing economies.

For example, the World Bank has already indicated that supercritical coal plants could be a part of the CTF. These plants will be clean only in comparison to the older generation of subcritical coal plants, but they will not substantially mitigate the climate problem. Furthermore, from the very mining of the coal to the disposal of the ash at the end of combustion, the coal cycle creates serious pollution and health problems. Using public monies to subsidize coal plants in

places like India and China will actually significantly increase the total load of carbon emissions to the atmosphere.

The World Bank has also indicated that it could use CTF funds for "Carbon Capture and Storage (CCS)-readiness." One week ago, the *New York Times* reported that the push for clean coal in the United States is slowing due to high costs, and that the industry does not expect to have CCS in place for decades, far too late to be a major solution to global warming. Under the Bank's current proposal, therefore, clean technology funds will very likely be used to finance a technology in poorer countries that is not advancing very fast even in the richest country in the world.

It is highly wasteful to allow the use of scarce climate funding to underwrite technologies like CCS that have not been proven to work or will not come on line in the near future. In the case of CCS, the best-case scenario as outlined by the World Business Council for Sustainable Development is that the technology would be ready by 2030.¹ Such a counter-productive plan would lock in high emission coal plants in the hope of future mitigation that may never be achieved, or may be achieved only after catastrophic climate change has already occurred.

CCS is transfer of techno-fantasy, not clean technology transfer, and could be plagued with verification and enforcement problems. Using public money for coal and CCS may boost companies that make coal plant equipment, but it cannot be considered part of the solution for the climate crisis.

At its most fundamental level, clean technology must actually be clean. Clean energy technologies must have the potential for large-scale use without causing dangerous climate change or must achieve significant emissions reductions – on the order of 80% plus by 2050 – compared to currently employed technologies, while avoiding additional significant adverse impacts. Clean energy technologies should not include oil, gas for export, any type of coal technology, hydropower above ten megawatts, or nuclear power. Moreover, there should be a certification requirement to ensure that none of the funds have been used for coal, oil, gas or nuclear projects, with penalties and decertification imposed in the event that certifiers misinform fund auditors

Clean end-use technologies should not include HFC-23 abatement projects, whereby funds to support destruction of this by-product of HCFC-22 manufacturing creates a perverse incentive to increase production of the original ozone-depleting refrigerant. A study by Stanford researchers released in 2007 showed that finance for emissions reduction for thorough HFC-23 destruction generated twice the income of the refrigerant gases themselves, generating profits for plant owners and the motivation and capital to invest in more HCFC-22 production.

¹ World Business Council for Sustainable Development, 2006; see also Rochon, Emily. "False Hope: Why carbon capture and storage won't save the climate." Greenpeace, the Netherlands; May 2008, p. 6.

Technologies eligible for support under a US funded Clean Technology Fund should include the full range of existing solar, wind, hydropower below ten megawatts, and geothermal energy supply technologies. Clean technology could include biomass technologies, but only in cases where they reduce greenhouse gas emissions by 80% on a full life cycle basis - including direct and indirect land use change; do not degrade or imperil water supply or quantity; do not degrade soil quality or quantity; and do not threaten biodiverse areas. Clean end-use technologies include end-use energy efficiency measures that achieve substantial reductions in greenhouse gas emissions.

The rapid expansion of Colombia's palm oil production is creating both environmental harm and human rights abuse. Already, the land area devoted to oil palm plantations in Colombia has nearly doubled from 145,027 hectares in 1998 to 275,317 hectares in 2005, causing large-scale deforestation and an increase in global warming pollution. Reports of forced and sometimes violent displacement linked to the expansion of palm oil plantations suggest serious human rights violations and illegal land acquisition.

A US CTF must include, and be guided by, publicly disclosed, full life cycle carbon and greenhouse gas accounting, including comparison of alternatives.

Within the parameters of prioritizing clean, no-carbon and low-carbon transformational technologies, a US CTF should give preference to small, locally controlled and managed projects that provide local energy access, improve living standards, and directly benefit low-income groups. Clean, transformational energy should put livelihood needs ahead of export-oriented projects. US clean technology funds should give preference to grants that provide incentives for developing countries to embrace a clean development path and should be explicitly additional to the Overseas Development Assistance commitment of 0.7% GDP.

Part II

Friends of the Earth's second over-riding concern about the Clean Technology Fund pertains to its potentially multilateral nature. A multilateral Clean Technology Fund should be governed and managed by the UN Framework Convention on Climate Change (UNFCCC), to which the US is a party, not the World Bank. We cannot overemphasize that the World Bank is the wrong institution to control any clean technology fund.

Key to the role of technology transfer within the context of any international climate regime is the obligation of industrialized countries within the UNFCCC to provide measurable, reportable and verifiable support to developing countries to reduce emissions. Under the World Bank's current proposal, these funds are treated as conventional development assistance, thereby undermining developed

country commitments to international aid. These funds must be additional, and must not be considered development assistance.

As an institution that by definition manages development assistance, not climate change, the World Bank is the wrong home for a CTF.

In addition, the World Bank has a terrible track record when it comes to climate change. Before the World Bank controls any climate funding, its own energy lending patterns must be addressed. The World Bank Group continues to commit scarce international development finance in a manner that locks in long-term fossil fuel use and is inconsistent with international climate needs. The Bank is first and foremost the world's largest multilateral lender for fossil fuel projects and has an enormous carbon footprint for which it is not held to account.

Just as it was announcing its proposed CTF, the World Bank showed its true colors, providing a clear warning as to why the US Congress should not give any money to a Bank-controlled CTF. In April 2008, the Bank approved a \$450 million loan to Tata Power Company Limited - part of India's giant multinational corporation, the Tata Group - for a massive 4,000 megawatt coal project in Gujarat, India, near an area with huge solar thermal power potential. Tata Power earned \$1.6 billion in revenue in 2007. The coal project is expected to emit 23 million tons of carbon dioxide per year and will be one of the 50 largest greenhouse gas emitters in the world. The World Bank division justified this loan on the basis that Tata's coal plant would be better "than the average plants in India."

A much better use of public money would be to subsidize proven clean energy technologies, such as solar thermal, so as to make them cheaper than coal.

The World Bank currently spends some \$1 billion per year, and growing, on oil and gas industries, contributing substantially to global warming. In 2006, oil, gas, and power commitments accounted for 77% of the World Bank's total energy program. Only about 6 percent went to "new renewables," such as wind, solar, and mini-hydro.

In fact, since the Gleneagles G8 meeting in 2005, where the Bank Group was tasked with designing a clean energy investment framework, lending for fossil fuels has actually increased at a rate that exceeds the increase in renewable technologies – thus exacerbating an already large disparity in funding.² World Bank Group support for fossil fuel extraction in FY06 actually increased 93% compared to FY05. The private sector lending arm of the World Bank Group – the International Finance Corporation (IFC) – increased its support for oil alone by more than 75% from FY 05-06.

² Current World Bank Group support for fossil fuels, including power, has increased at least 42% over FY05 levels. World Bank support for renewables and efficiency is also increasing but by less than its support for fossil fuels – 28-40% by the Bank's own estimates. So the gap in funding is actually growing larger, and exactly the wrong signals are being sent to the market.

Due to this and other inherent conflicts of interests, the World Bank, as an institution, is burdened by fundamental issues of trust with the very constituencies that it professes to serve. Therefore, any initiative administered by the Bank will at best have to work very hard to overcome legitimate skepticism, and at worst will be undermined and rendered ineffective by the reputation of its parent.

Developing countries have already voiced grave concerns about a World Bank-controlled CTF. At the April international climate change negotiations in Bangkok, Thailand, the G77 and China criticized the World Bank's Climate Investment Funds, including the CTF. The Bank's proposed climate funds have been designed without guidance from parties to the UNFCCC; lack transparency; potentially undermine UNFCCC efforts and commitments and divert funds away from the UNFCCC.

Furthermore, World Bank management is offering minimal public comment period, in English only, on an issue of obvious global significance. This kind of disregard for the importance of the input from global civil society is unfortunately typical of the World Bank and illustrative of our concerns regarding the Bank's administration of climate funds.

With a record as the world's largest multilateral lender for fossil fuel projects; an enormous carbon footprint for which it is not held to account; a poor environmental and human rights track record; and a serious lack of democratic governance and traditions, the World Bank is absolutely the wrong institution to be in charge of any clean technology fund. Congress should not allow the World Bank to control a US Clean Technology Fund.

Conclusion

In conclusion, Friends of the Earth recommends that the US Congress authorize funds that go exclusively to technologies that, even if implemented on a large scale, will truly be compatible with fighting climate change. We also recommend that US clean technology funding not be contributed to the World Bank's proposed Clean Technology Fund. Rather, it is the World Bank that needs to transform its entire existing energy portfolio to be part of the solution, not a major contributor to the problem.

Until a clean technology funding mechanism is established under the UN Framework Convention on Climate Change, US clean technology funding should be directed bilaterally, with the understanding that these funds fall outside the rubric of conventional development aid. Meanwhile, the U.S. should participate fully and constructively in ongoing discussions within UNFCCC auspices to set up a global Clean Technology Fund.

The Multilateral Fund for the Implementation of the Montreal Protocol is an example of a successful multilateral environment fund governed and operated entirely outside the World Bank's management. The Fund's fundamental principle of "common but differentiated responsibility," with developed and developing country parity in governance structures and the assurance of sustained funding, has led to widespread adoption and implementation of the Montreal Protocol among developing countries. Confidence in the Montreal Protocol Fund led to the decision in 2007 by parties to the Montreal Protocol to adopt even tighter timelines for phasing out ozone-depleting substances. The Global Fund to Fight AIDS, Tuberculosis and Malaria offers another case in point. In addition, Mexico has put forward a proposal for a Multinational Fund for Climate Change, which includes a low carbon technology facility. The critical point is this: to make an urgently needed commitment to funding transformational clean technology, we do not need the World Bank.

Legislation authorizing funds for a US Clean Technology Fund should also include explicit language prioritizing respect for universally recognized human rights, including those of indigenous peoples.

Friends of the Earth recommends to the House Financial Services Committee and other relevant committees that the annual authorizations and appropriations for a US CTF be informed by a detailed emissions reductions report, annual review, and independent evaluation. Assessment, evaluations and reporting should cover, but not be limited to, the following: greenhouse gas emissions and reductions attributable to each project; the extent to which a US CTF is meeting its greenhouse gas reduction goals; local and national access to electricity, including increased access to energy for low income groups and percentage of energy for export; changes in land tenure at project sites; environmental impact assessment; human rights impact assessment; and a listing of each new project supported by the CTF that involves renewable energy and environmentally beneficial products and services, including clean energy technology.