THE WORLD BANK AND FOSSIL FUELS:

A CLEAR AND PRESENT DANGER

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In its own words, the World Bank Group's position as a leading source of global fossil fuel financing poses a "clear and present danger" to its reputation and the global commons. The Bank is at a crossroads, where it must decide whether to remain the world's key agent for transnational corporation's oil, gas and coal aspirations, or to become an agent for positive change, truer to the stated mission of an institution that claims to alleviate poverty promote environmental sustainability.

Thanks to the World Bank Group (comprised of the International Finance Corporation, International Development Association, Multilateral Investment Guarantee Agency, and International Bank for Reconstruction and Development), many new areas of the world are opening up their petroleum, gas, and coal fields and mines to U.S., European, and Japanese corporations.

Over $24 billion of World Bank financing has poured into projects designed to extract, transport, process and burn fossil fuels drilled and mined from developing countries from 1992 to 2002. The cumulative impacts of these hundreds of projects are considerable. While transferring natural resources into transnational private hands, the World Bank is aiding and abetting economic disparity, repression, political instability, local environmental disasters, and global climate change. All this from an institution that claims, "Our dream is a world free of poverty."

Poverty, repression, and war

Poor people are the most likely to be forced off of their land and made homeless by the World Bank's mining projects. They are the most likely to live in polluted surroundings and the least empowered to demand fair compensation or a share in the revenue. A recent study by political scientist and former World Bank visiting scholar Michael Ross found that the more heavily countries rely on oil and mineral exports, the worse they do with regard to health, education and income indicators.

Mineral exporting nations also spend a far higher percentage of their budgets on their militaries, Oxfam found, diverting funds from programs that directly address the needs of the poor. This militarization of mineral-rich countries also has an alarming human rights consequence: governments and corporations associated with fossil fuel operations routinely force relocation of local populations, with brutal and sometimes deadly repression of critics. Resource wealth retards democratization by enabling the government to better fund the apparatus of repression.

Repression and poverty breed discontent, so it is little surprise that dependence on oil and other minerals is also associated with a higher risk of civil war. World Bank analyst Paul Collier has found that countries dependent upon resource exports run a risk of civil war that is 40 times greater than countries with no resource exports.

Laissez-faire climate

Like the Bush-Cheney Administration, the World Bank acknowledges that global warming is a serious threat. Nevertheless, it continues to fuel the problem.

At the Earth Summit in Rio de Janeiro, ten years ago, the world's governments committed to halt transboundary environmental destruction, including climate change. With a goal of reducing global carbon dioxide emissions, the Climate Convention signed in Rio noted the "crucial role" that multilateral institutions play.

After these momentous documents were delivered to the world, one would expect a response of similar magnitude from the World Bank with regard to its energy lending practices. However, research shows that little has changed: In fact, the agenda being pushed by the World Bank and its major shareholders -- opening up oil, gas and coal fields to private investment, pushing privatization and deregulation of the power sectors in various countries, and investing heavily in fossil fuel-based industry and infrastructure -- continues, ensuring a dirty technological lock-in by developing countries.

Many of these projects are driven by the quest for new fuel sources for cars and heavy industry in the United States and other Northern countries – or by the misguided notion that the exploitation of fossil fuels will lead to development in host countries

Five years after Rio, in 1997, World Bank President James Wolfensohn made a startling commitment: "The World Bank will routinely calculate the potential impact of all its energy projects on climate change and, where there is cause for concern, assist developing country clients to finance more climate-friendly options," he proclaimed.

Since then, the world has witnessed increasing evidence that climate change is not just theoretical, that in fact, it is here. Polar ice and mountain glaciers are already melting, leading to rising sea levels while at the same time climate fluctuations are bringing increasingly severe droughts, floods and storms around the world.

Caused by the excessive buildup of heat-trapping "greenhouse" gases in the atmosphere - in particular, carbon dioxide emissions from the burning of oil, gas and coal - climate change threatens virtually every segment of the biosphere and human society.

Five years after Mr. Wolfensohn made that commitment, the WBG still does not "routinely calculate" projects' potential climate change impact. The Bank has never calculated the cumulative climate change impact of its projects, and rarely do its project reviews consider carbon dioxide emissions, the truest indicator of the climate change impact of its portfolio.

SEEN, however, has made these calculations, through years of painstaking research. The World Bank Group (WBG) has approved *over $24 billion in financing for 229 fossil fuel projects from 1992 to 2002. This financing has leveraged enough fossil fuel production to generate, almost double the amount of carbon dioxide as was produced by humanity in the year 2000.* That is, these projects will produce 46.7 billion tons of carbon dioxide; global emissions from the consumption or flaring of fossil fuels totaled 23.6 billion tons of carbon dioxide in the year 2000.

By comparison, the World Bank Group's support for renewable energy and energy efficiency is growing, but still relatively small. Since 1992, the WBG has supported 39 projects targeting renewable energy or energy efficiency, with approved financing of $1.35 billion. *Fossil fuel financing at the Bank outpaces renewables by a ratio of 18:1.* Over $4 billion in other fossil fuel projects are "in the pipeline," compared to $500 million of pending renewables/energy efficiency projects.

Rather than halt fossil fuel financing and boost renewables, the WBG has contented itself with time-wasting and bureaucratic exercises, such as the Extractive Industries Review and the Prototype Carbon Fund, that masquerade as expressions of genuine concern, all while continuing its role as the world's agent for Big Oil and King Coal.

Extractive Industries Review

At the World Bank annual meetings in Prague in September 2000, Wolfensohn unexpectedly agreed to initiate an independent review of World Bank Group policies and lending patterns surrounding oil, mining, and gas (the "extractive industries"). His pledge led to the formation of the Extractive Industries Review (EIR). From the beginning, Wolfensohn and World Bank staff have promised a process that is transparent, inclusive, analytical, and participatory. To date, the EIR has failed on all of these counts.

From the beginning of the EIR process, civil society organizations have expressed concerns regarding the EIR's apparent lack of independence from the Bank. In October 2001, 29 civil society organizations co-signed a letter to President Wolfensohn, in which they expressed misgivings about the misguided review. "If the Review persists in this course, it will be just another paper exercise that yields no useful result. We have little interest in participating in such a process," they wrote.

Today, one year after the formal start of the process, the attitude of most civil society organizations is indifference. Most believe that the EIR is likely to recommend modest proposals for reform at best – while completely skirting the issue of whether or not continuing investment in fossil fuels alleviates or exacerbates poverty on the ground (which is in theory, the EIR mandate).

The EIR's two consultations to date – in Rio de Janeiro, covering all of South America, and in Budapest covering all of Eastern Europe and Central Asia -- have produced little. Recommendations were made by consensus, thus ensuring that the well-heeled industry representatives and World Bank staff who were given as great a voice as civil society groups, despite obvious conflicts of interest, were able to block all but the most obvious and modest conclusions.

The Secretariat's first field trip, a recent excursion to Papua New Guinea raised more questions. The reason for PNG's selection as the one site visit in Asia remains unclear, although some say that it was the top industry recommendation. Second, the only environmental group contacted for this consultation was the World Wildlife Fund – who have a $3 million contract with Chevron to help manage the oil project in PNG. Not surprisingly, WWF thought the project was going well.

The EIR's post-trip report on PNG made no mention of the $11 million IBRD gave for petroleum sector privatization in 1994, or the $7 million IBRD gave in 2000 for technical assistance at Chevron's Kutubu project. When asked about this omission, EIR staff maintained that they were previously unaware of these, or any, Bank projects on PNG.

Clean Development Mechanism

The World Bank's fossil fuel investments are a "dirty development mechanism," the polar opposite sort of financing that the newly-minted Clean Development Mechanism (CDM) is supposed to provide. Conceived at the Kyoto Climate Convention in December 1997, the CDM creates a carbon emissions trading scheme that promises developing countries the potential for "enhanced sustainable development, increased private capital investment in energy projects and accelerated acquisition of advanced technology."

Currently, the World Bank is engaged in three new CDM-related funds: the "Prototype Carbon Fund," capitalized with $150 million in 1997; the "Community Development Carbon Fund," capitalized in 2002 with $100 million; and, the BioCarbon Fund, also capitalized in 2002 with $100 million.

Why is the World Bank interested in carbon trading? Early internal documents on the PCF suggest the World Bank was eager to profit from the growing carbon market, which it envisioned reaching into the hundreds of billions of dollars by 2020. These documents show the Bank was poised to profit from a "win-win" strategy wherein the World Bank would capture "low-hanging fruit" (that is, carbon emissions that are relatively inexpensive to capture). The Bank estimated it could generate roughly $100 million per year in net revenue for itself from these "low-hanging fruits" by 2005.

Concerns over the Bank involvement in carbon trading -- expressed by both government and NGOs -- stem from the conflict of interest inherent in the same institution action as a broker for carbon credits while, at the same time, brokering carbon-combustion projects (such as oil pipelines in Chad, the Caspian, and beyond), without tallying any carbon "debit" for these projects.

A Simple Solution

What is required of the World Bank at this moment in time is simple: stop using public money to invest in fossil fuels. Instead, use public funds to help create a rapid transition away from fossil fuels, targeting the energy needs of the poorest first. Public funds should be invested in the public good. For the poorest, who will be most dramatically and directly harmed by climate change, the greatest public good is to invest every spare dollar in renewables and energy efficiency now. Anything short of this risks the health and lives of those whom the World Bank is supposed to serve.

Corporate fossil fuel welfare kings

SEEN's ongoing study of World Bank Group financing for fossil fuels finds that the big winners of procurement contracts from the World Bank are some of the largest transnational corporations in the world. Of the world's ten largest corporations, five are among the WBG's top 15 private welfare recipients. **Shell,** the world's eighth largest corporation, benefited from over $1.93 billion in World Bank projects since 1992, and ranks third among all firms. **BP-Amoco** and **Exxon Mobil** , the world's second and fourth largest corporations, attained roughly $900 million in WBG financing apiece.

The World Bank's fossil fuel procurement contracts are replete with names from this year's list of corporations being investigated for corruption and other scandals: **Halliburton** (the second largest beneficiary of WBG fossil fuel financing at $1.97 billion) took most advantage of World Bank and U.S. government financing while Vice President Dick Cheney was CEO. Halliburton's accounting practices are being investigated by the U.S. Securities and Exchange Commission. **Enron** (#11 at $967 million) cultivated and demanded close relationships with the World Bank Group. **El Paso Energy** (#5 at $1.5 billion) has seen its share value plummet while investigators probe practices like "round-trip energy trading." Accounting practices and executive excess have placed **General Electric** (#9 at $1.1 billion of WGB financing) on the corporate hot seat.

Leading transnational corporate beneficiaries of World Bank Group fossil fuel financing, 1992 to August 2002

World Bank fossil fuel welfare kings, 1992 to August 2002

Rank	Company	Home country	#projects	$million
1.	ABB Alstom	Belgium	17	$2,741.8
2.	Halliburton	USA	14	$1,967.5
3.	Royal Dutch / Shell Group	UK	13	$1,931.6
4.	Mitsui	Japan	8	$1,807.5
5.	El Paso Energy	USA	14	$1,479.6
6.	ChevronTexaco	USA	8	$1,390.7
7.	AES	USA	10	$1,353.2
8.	Unocal	USA	9	$1,247.7
9.	General Electric	USA	7	$1,058.6
10.	TotalFinaElf	France	7	$982.4
11.	Enron	USA	12	$967.3
12.	BP-Amoco	UK	12	$938.8
13.	CMS Energy	USA	6	$890.5
14.	ExxonMobil	USA	7	$881.8
15.	Itochu	Japan	3	$834.6
16.	Foster Wheeler	USA	4	$776.
17.	Westinghouse	USA	3	$775
18.	McDermott	USA	3	$755

19.	Black & Veatch	USA	3	$750
20.	Siemens	Germany	3	$700
21.	International Power	UK	4	$695.7
22.	Electricite de France	France	8	$677.5
23.	Ishikawajima-Harima	Japan	2	$650
24.	Wartsila	Finland	7	$605.3
25.	British Gas	UK	4	$593.7

A complete listing of the 130+ transnational corporations that have benefited from World Bank fossil fuel assistance since 1992 is available of SEEN's website, http://www.seen.org .

Same as it ever was

In June 2002, the International Finance Corporation's director of oil, mining and gas predicted no relent in his World Bank Group institutions' fossil fuel practice: "What we see looking forward is large investments in the oil sector," said Rashad Kaldany.

One such impending large investment is the proposed Baku-Tbilisi-Ceyhan (BTC) oil pipeline in the Caspian region. Although no formal package has been proposed yet, the World Bank Group (specifically the IFC) is widely thought to be considering a loan for the Baku-Tblisi-Ceyhan main export pipeline. The pipeline will create a 1,100 mile-long energy corridor that will traverse the Caspian Sea coast to the Turkish Mediterranean, providing oil and gas for European and US Markets.

The pipeline is controversial for a number of reasons. First, there is concern that the pipeline may not be economical without public assistance. An assistance package of at least $300 million is reportedly being prepared for the BTC Pipeline Company, a consortium of oil companies led by BP. As BP's Chairman Sir John Browne put it, "free public money" will be necessary to build the pipeline in a profitable way. BTC is also controversial because of its unusual – some say colonial – governance structure that could lead to further repression along its volatile route.

But the BTC is clearly a key strategic project for the US government – its construction was highlighted in the National Energy Strategy published last year by the Bush Administration. By avoiding both Russia and Iran, the route clearly meets the desires of UIS policymakers to keep oil out of the hands of any potential enemies of the US. For this reason, BTC seems likely not only to go forward, but to receive millions of dollars of "free public money".

The World Bank Group is not shying away from coal, either. The IFC is considering a $35 million loan to the Indonesian company, PT Pamapersada Nusantara (Pama), which is primarily a coal-mining contractor. Much of Pama's mining takes place in East and South Kalimantan, where many people have suffered years of corruption and environmental destruction. Many local residents have called for a halt to operations in which Pama is involved, and, in 1997, villagers joined the Indonesian Forum for the Environment in calling for an investigation of Australian companies' complicity in alleged human rights abuses and other infractions associated with the coal mining. Agence France-Presse reported that the activists petitioned the Australian embassy "for an investigation into the forced evacuations of 4,000 indigenous residents, confiscation of villagers' land and polluting the local environment."