

Bill Summary:

H.R. 1886 – The End Oil Aid Act



Summary

H.R. 1886, introduced by Representative Maurice Hinchey on April 17, 2007 and referred to the Committee on Financial Services and the Committee on Foreign Affairs, would end the use of foreign assistance funds to subsidize the operations of oil and gas companies.

Background Information on Oil Aid:

“Oil Aid” refers to tax dollars intended to help the poor that are instead subsidizing the oil and gas industry:

- Despite recording record profits, the oil and gas industry continues to receive billions of dollars in support from the federal government
- A large portion of these subsidies come from foreign assistance funds and contributions to multilateral institutions: In 2005, multilateral development institutions including the World Bank Group and U.S. agencies such as the Export-Import Bank and the Overseas Private Investment Corporation provided more than \$3 billion in financing to the international oil and gas industry.

Rather than alleviating poverty and contributing to sustainable investments, oil and gas production in developing countries is associated with a number of negative effects, including increased levels of poverty and economic inequality; exacerbated poor governance, corruption and conflict; and higher levels of debt. [Oil Change International]

The World Bank’s Extractive Industries Review recommended ending financing of oil projects by 2008. Despite this, the bank’s lending to the fossil fuel industry rose by 93 per cent in 2006. [Bank Information Center]

“Each year, billions and billions of dollars that should be spent on ending poverty around the world and improving the environment are being used to subsidize oil and gas projects in developing countries that lead to debt traps for those countries and an increase in greenhouse gas production.” – *Representative Hinchey*

H.R. 1886

Oil Aid flows through a number of channels, including both bilateral assistance and multilateral institutions. H.R. 1886 seeks to end bilateral oil aid, and to use the voice, vote and influence of the United States to stem oil aid flowing from multilateral institutions.

Export-Import Bank (Ex-Im):

- Ex-Im provides financing to support the export of U.S. goods and services.
- Ex-Im supplies hundreds of millions of dollars every year to the international oil and gas sector. In 2005, Ex-Im financed \$1.5 billion in oil and gas projects overseas.
- H.R. 1886 prohibits Ex-Im from financing any oil and gas development project, processing facility, pipeline, terminal or other oil and gas production and distribution operation or facility. The bill also prohibits such financing through financial intermediaries such as private banks that Ex-Im frequently uses to indirectly finance projects. [H.R. 1886, Section 2]

Overseas Private Investment Corporation (OPIC):

- OPIC was established in 1971 to foster economic development in developing countries through U.S. investment overseas.
- OPIC is already prohibited from providing financing for oil and gas extraction or surveying for oil and gas. Yet, in 2005 OPIC financed \$580 million in oil and gas projects, including oil and gas pipelines.
- H.R. 1886 would strengthen this prohibition and close its loopholes by extending it to include indirect financing through financial intermediaries and financing of any oil and gas development project, processing

facility, pipeline, terminal or other oil and gas production and distribution operation or facility. [H.R. 1886, Section 3]

Multilateral Development Banks (MDBs):

- In 2006, the U.S. provided more than \$1 billion to MDBs such as the World Bank Group and the Inter-American Development Bank.
- This money is supposed to fight poverty in developing countries.
- In reality, the World Bank and other MDBs are channeling hundreds of millions of dollars in financing to the international oil and gas sector every year. In FY 2006, the World Bank Group provided more than \$800 million in financing to oil and gas projects.
- H.R. 1886 makes it U.S. policy to oppose using MDB resources to support oil and gas projects, requiring the U.S., through its Executive Director at each MDB to:
 - Inform bank management and the other country representatives on the bank's Board of Directors that the United States will seek to ensure that bank resources are not used to provide assistance to projects that would support oil and gas sector expansion
 - Use his "voice and vote" to oppose such assistance as it arises
- The bill requires the Secretary of the Treasury to submit an annual report to Congress describing any MDB assistance to the oil and gas sector over the course of the year. [H.R. 1886, Section 4]

United States Agency for International Development (USAID):

- USAID has been actively involved in efforts to restructure oil and gas legal and regulatory frameworks in a number of countries and has financed the production of feasibility studies for specific oil and gas projects. However, less is known about the scope of USAID assistance for the oil and gas projects than is the case with OPIC, Ex-Im Bank, and MDBs.
- By requiring USAID to submit a report to Congress on the current level of USAID assistance to the oil and gas sector, H.R. 1886 will cast light on the nature of USAID support of the oil and gas industry and provide the basis for future action.

Organization for Economic Cooperation and Development (OECD):

- Many of the world's wealthiest nations have an Export Credit Agency (ECA), their equivalent of Ex-Im and OPIC.
- The OECD is a meeting ground for 30 of the world's wealthiest countries and provides a forum for discussing issues and reaching agreements.
- The OECD's Export Credit and Guarantees Group (ECG) sets standards for Export Credit Agencies, holds regular meetings to oversee their policies, and measures their compliance with the organizations "Common Approaches" – environmental policies that are supposed to provide common standards across the ECAs.
- H.R. 1886 requires the President of the United States to inform the OECD that the U.S. expects the Organization to take measures to prevent the ECA's of OECD member countries from assisting oil and gas projects.

Why End Oil Aid?

The U.S. should keep its promises to the poor. The U.S. has committed to doing its part to fight global poverty, yet every year it spends limited development assistance resources on oil and gas subsidies instead of poverty alleviation. This misuse of funds must stop.

It's fiscally irresponsible to spend billions of dollars to subsidize the oil and gas industry while spending billions more to fight oil addiction. Continuing to subsidize the fossil fuel industry undermines investments in new, clean energy technologies, and increases the risk of dangerous climate change.

Helping developing countries invest in a clean energy future is the key to curbing climate change. "We have an important choice as we help to establish an energy infrastructure in developing countries around the world. Either we follow the current policy and create an oil-based infrastructure that will result in these developing countries producing harmful greenhouse gases, or we establish a renewable energy infrastructure that will make these countries clean energy leaders." – *Representative Hinchey*