



H.R. 1886: Ending Oil Aid

Summary

H.R. 1886, introduced by Representative Maurice Hinchey (D-NY) 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 overseas operations of oil and gas companies.

Background Information on Oil Aid:

Despite recording record profits of over \$140 billion last year, the oil and gas industry continues to receive billions of dollars in support from the federal government. In 2005, multilateral development institutions including the World Bank Group, and U.S. agencies such as the Export-Import Bank (Ex-Im) and the U.S. Overseas Private Investment Corporation (OPIC) provided more than \$3 billion in financing to the international oil and gas industry.

Tax dollars intended to help the poor are instead going to support the oil and gas industry: A large portion of federal subsidies for the oil and gas industry come from funds and institutions whose purpose is to alleviate poverty:

Rather than alleviating poverty, oil and gas production in developing countries is associated with a number of negative effects. These include higher levels of poverty and economic inequality; poor governance; corruption; conflict; and higher levels of debt [Oxfam America's 2006 Report, *Extractive Sectors and the Poor*]. These negative development consequences are one of the reasons the World Bank's Extractive Industries Review recommended ending financing of oil projects by 2008. Despite this recommendation, the bank's lending to the fossil fuel industry rose by 93 per cent in 2006. [Bank Information Center]

H.R. 1886 sponsor, Representative Maurice Hinchey (D-NY), said "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."

Why End Oil Aid?

The U.S. must 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 is a misuse of funds that needs to 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. Public funds should not be used to support an industry reporting record profits when dependence on its products is harmful to national security and the environment.

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 said.*

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Oil Aid flows through a number of channels, including both bilateral loans and 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.

FACT SHEET

Export-Import Bank (Ex-Im):

- Ex-Im provides financing to support the export of U.S. goods and services. It 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 loopholes to exclude 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 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 \$1 billion 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. to use its voice and vote in each MDB to oppose the use of MDB funds to provide assistance to projects that would support oil and gas sector expansion.
- 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): Less is known about the scope of USAID assistance for oil and gas projects than is the case with OPIC, Ex-Im Bank and MDBs. Yet, 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. 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, a meeting ground for 30 of the world's wealthiest countries, provides a forum for discussing issues and reaching agreements. Its 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 organization's environmental policies.
- 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.

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