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World Bank Climate Change Issues and How New Policies are Affecting International Oil & Gas Projects

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Principles and Protocols of the World Bank, IFC, and Equator Principles EPFIs



2019 Hottest Year in Modern Record

Over Past Decade Internationally Funded Projects

Have Encountered Environmental Opposition to Projects

Led to Issuance of EHS Guidance, including Principles and Protocols for Financing under the World Bank and Equator Financial Institutions

- Addresses *All Environmental Issues*
- Initial Focus on Social Impact and Redevelopment Projects
- New Focus on Climate Change and New Projects

Major Shift in World Bank Lending Policies

- ▶ In 2013, World Bank announced policy to reduce financing coal related power projects - **projects in several countries cancelled**
- ▶ In the Climate Change Action Plan (2016-2020), the World Bank Group made a commitment to increase the climate-related share of its lending to Countries from 21% to 28% by 2020.
- ▶ From July 2018 to July 2019, likely coal power plants to be funded increased from 58 gigawatts (GW) to 67 GW, with funding coming from China, South Korea, and Japan, instead of the World Bank.
- ▶ Minimal impact on Oil & Gas-related projects: major international pipelines for natural gas approved for funding
- ▶ Oil and gas related projects with GHG mitigation plans approved

World Bank Huge Transition to Focusing on “Climate Change Reduction/Mitigation” Projects

- ▶ In fiscal year 2019, the World Bank Group committed nearly \$17.8 billion to climate-related investments, surpassing current targets for the second year in a row.
- ▶ Examples Include: building climate resiliency into transportation systems in Sierra Leone; irrigation to address food security in Pakistan; and mitigating flood risk in Vietnam’s urban infrastructure.
- ▶ Going forward, the World Bank Group will invest and mobilize \$200 billion in climate-related financing from 2021-2025, doubling what Bank did in the last five years and significantly ramping up support for adaptation and resiliency.
- ▶ Collaboration with EPFIs to encourage coordinated Climate Change Policies

Environmental, Health, and Safety (EHS) Guidelines GENERAL EHS GUIDELINES: ENVIRONMENTAL ISSUES



Similar to U.S. EPA and ISO Guidance--International Funding Protocols Require:

- ▶ Basic ESA and Due Diligence following ASTM, NEPA EIA or similar EIS standards
- ▶ *Reporting of and Addressing Existing and Potential Issues*
- ▶ Risk Screening, and if required
- ▶ Interim Remediation, Mitigation, Pollution/Emission/Discharge Controls
- ▶ Detailed Risk Assessment Sets Treatment/Emission/Discharge Standards or use US/EU Default Guidance
- ▶ Selection of Remediation and Mitigation Goals
- ▶ Selection of Conceptual Approach, Detailed Review of Technologies
- ▶ Selection and Implementation of Preferred Technologies and Plan



If Funded, Development is Implemented in Context of World Bank Group or Equator Principles, including:

- 1. Review and Categorization
- 2. Completion of Environmental and Social Assessment
- 3. Identifying Environmental & Social Standards
- 4. Developing and Implementing Environmental/Social Management System and Action Plan
- 5. Stakeholder Engagement
- 6. Grievance Mechanism
- 7. Independent Review
- 8. Covenants
- 9. Independent Monitoring and Reporting
- 10. Reporting / Transparency

New Clarity in Equator Principles



- ▶ The Equator Principles Association published a new document: '[Equator Principles Implementation Note](#)' with external stakeholders and other interested parties.
- ▶ The document, written by EPFIs, contains selected information and examples to support the understanding of the requirements in, and implementation of, the [Equator Principles](#).
- ▶ The document comprises a series of modules supporting the implementation of the requirements contained in the [Equator Principles](#) on scope, **climate change (Principle 2 and Annex A of the [Equator Principles](#))** and reporting (Principle 5, 10 and Annex B of the [Equator Principles](#)),
- ▶ The document includes provisions for reporting and addressing existing and projected Green House Gas (GHS) emissions contamination.

Equator Principles (EP)



- ▶ Represent a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in project lending.
- ▶ Are intended to provide a minimum standard for due diligence to support responsible risk decision-making and bank loan management.
- ▶ Currently 87 Equator Principles Financial Institutions (EPFIs) in 36 countries have officially adopted the EP, covering over 70% of international Project Finance debt in emerging markets.
- ▶ EPFIs have committed to implementing the EP in their internal environmental and social policies, procedures and standards for financing projects.
- ▶ Recent Climate Change Policies have resulted in Cancellation of Major International Projects that were advanced in their planning & design

EHS Guidelines and Equator Principles are Integrated in Funding Process



- The Equator Principles apply to four financial products:
 - ❑ Project Finance Advisory Services,
 - ❑ Project Finance,
 - ❑ Project-Related Corporate Loans, and
 - ❑ Bridge Loans.
- The loan or “investment” agreement provides Equator Principles Financial Institutions (EPFIs) with the formal opportunity to require the client to address environmental and social issues throughout the Project Cycle, especially following Financial Close and subsequent disbursements or line drawdowns.
- An important strength of the Equator Principles is the incorporation of covenants linked to compliance as outlined in Principle 8. with all relevant host country environmental and social laws, regulations and permits & international standards in all material respects.

Environmental / Social Representations



Environmental and social clauses included in loan agreements depend on the nature of the site:

REPRESENTATIONS AND WARRANTIES

- ▶ There is no Environmental or Social Claim outstanding, pending or likely to occur in respect of, or in connection with the Project, which Environmental or Social Claim has or is reasonably likely to have a Material Adverse Effect on the Project.
- ▶ The Project has at all times complied and currently complies with, and will continue, during all phases of construction and operation, to comply with all applicable Environmental and Social Requirements, and has obtained and complies with all necessary Environmental and Social Permits and conditions therein.

[According to Principle 7, an Independent Review is required for all Category A, and most Category B Project Finance loans and, for Project-Related Corporate Loans with potential high-risk impacts including adverse impacts on indigenous peoples, Critical Habitat impacts, significant cultural heritage impacts and large-scale resettlements.]

- ▶ The Borrower has produced all relevant reports and information on Environmental and Social Matters to the Lenders.
- ▶ The Borrower has appointed an Independent Environmental and Social Consultant, who will provide to the Lenders relevant monitoring reports satisfactory to the Agent on the implementation of the Environmental and Social Management Plan and Equator Principles Action Plan, including where appropriate the
 - ▶ **GHG Offset/Carbon Reduction/Climate Change Mitigation Plan**

Public Reporting & Transparency



- ▶ A summary of the Environmental and Social Impact Assessment and Operational Information is accessible and available online,
- ▶ Public Reporting by the Borrower for Most Projects, including:
 - a) Projects that emit over 100,000 tonnes of CO₂ equivalent
 - b) The Borrower shall publicly report HAPs and GHG Emissions during the operational phase on an annual basis with quantification of the Green House Gas emissions.
- ▶ Monitoring and Reporting of Data and Risk Assessment Findings will be conducted by the Borrower in accordance with internationally recognized methodologies and good industry practice.
- ▶ Similar requirements for water discharges.

Case Study: Honduras New Refinery



Case Study: New Refinery

- ▶ Risk Study identified social and environmental impacts, mitigation measures, quantified GHG emissions and carbon credit/off set requirements
- ▶ Engineered controls and involvement of local stakeholders critical to project approval by EFI with World Bank approval of Honduras grant for infrastructure required by private project
- ▶ Allows develop of Honduras Oil with outlet for products supplying and reducing cost of fuel in Carribean
- ▶ Requires offsets via replanting, solar, wind, and sustainable community development as well as social impact plan to help educate and supply jobs, training, clean water and health needs to community
- ▶ Investigations were integrated into construction activities and ongoing operation and maintenance activities to meet EHS standard.



Conclusions



- ▶ World Bank Group EHS Guidelines and Equator Principles are having a tremendous uncovered impact on improving environmental and social conditions in our World and advancing goal of environmental sustainability
- ▶ We can help by Providing Our US Based Expertise
- ▶ Checks and Balances in System and Focus on Sustainability and Continuous Improvement and Monitoring have upgraded the integrity of developments and funding processes
- ▶ NGOs also play a role in ensuring integrity to processes.
- ▶ Due Diligence, Risk-Based Remediation, and Climate Change are fully integrated into the process
- ▶ Major Projects focused on Coal have been canceled
- ▶ New Pipelines and Refineries to date have been approved based on case by case strategic determinations

Questions and Answers

- ▶ Thank you for this opportunity to share my perspectives with you.

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Chief Engineer



Climate Change Footnote



- ▶ Public Reporting by the Borrower for a Project that emits over 100,000 tonnes of CO₂ equivalent annually:
 - a) The Borrower shall publicly report Conventional HAPs and Greenhouse Gas Equivalent Emissions during the operational phase on an annual basis, and
 - b) Quantification of the Green House Gas emissions will be conducted by the Borrower in accordance with internationally recognized methodologies and good industry practice.

World Bank Group EHS Guidelines



- ▶ The World Bank Group Environmental, Health, and Safety (EHS) Guidelines are technical reference documents with:
 - ❑ general and industry-specific examples of Good International Industry Practice (GIIP).
 - ❑ specified performance levels and measures that are normally acceptable to the World Bank Group, and that are generally considered to be achievable in new facilities at reasonable costs by existing technology.
- ▶ They are used by the World Bank, IFC and MIGA.
- ▶ Following the [2012 update of IFC's Policy and Performance Standards on Environmental and Social Sustainability](#), the World Bank Group updated their EHS Guidelines and are adding new Guidelines for example, the Offshore Deep Water Petroleum Industry and Contaminated Land Guidance .