Coke Brothers

The new $50 billion BRICS bank will finance a wave of heavily polluting coal plants the West wouldn't touch. And that's not all bad.

BY KEITH JOHNSON

The BRICS countries' announcement last week that they will create a new development bank comes as a frontal challenge to the Western-dominated international financial system. It could also boost financing for coal-fired power plants around the world, something most international economic institutions, such as the World Bank, and many Western countries spurn.

Unshackling fresh money for coal could help bring poor countries what they most sorely need -- energy -- and jumpstart serious investment in advanced clean-coal technology that the whole world needs.

The New Development Bank won't be fully formed until next year, its policy charters have yet to be written, and pundits have teed off on the bank's prospects for success. But many observers believe that despite teething pains, the new kid on the block will grow up to be a real alternative to the World Bank, IMF, and the like and bring Beijing's investment focus to poorer countries.

If nothing else, the bank's creation reflects middle-income countries' frustration with the West's refusal to recapitalize the World Bank, keeping their financial leverage limited. And it comes at a time when even France has joined Russia and China in calling for an alternative international currency to curb Washington's ability to use the dollar's ubiquity to further its policy agenda.

More importantly, the New Development Bank will take a page from the BRICS countries' own recent history with infrastructure-fueled investments, said Kevin Gallagher, an associate professor studying economic development at Boston

University. He said the new bank would likely finance projects similar to those backed by the institutions it is modeled on, the Brazilian National Development Bank and the China Development Bank.

"They are going to put a premium on infrastructure and energy, which was the World Bank's model in the 1970s, which got them in trouble with local environmentalists," Gallagher said.

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Most of the BRICS countries -- Brazil, Russia, India, China, and South Africa -- invest heavily in coal. China uses as much coal as the rest of the world combined, while India's economy is powered by coal. South Africa and Russia are big coal exporters.

"You can definitely see why poorer countries, and the BRICS nations especially, would be interested in having new institutions to fund these types of energy projects without the red tape that is increasingly coming" from Western governments and

Western-dominated development banks, said Alex Trembath, an energy and climate analyst at the Breakthrough Institute. His technology-focused environmental think tank recently studied energy options for less-developed countries.

The World Bank, for example, has all but banned underwriting investments in coal-fired power plants, except in "rare circumstances." The U.S. last year echoed that stance, following a summertime pledge from President Barack Obama to keep public money out of dirty power overseas. The U.K., Nordic countries, and others soon followed.

"No doubt the BRICS will take a more flexible stance, certainly in their energy strategies, when it comes to fossil fuels," said Scott Morris, an expert on international financial institutions at the Center for Global Development.

And although that's exactly what people concerned about rising global emissions of greenhouse gases and temperatures don't want to see, it may not be the environmental cataclysm they envision.

Poor countries, such as those in sub-Saharan Africa, need energy to power development and growth; coal is a cheap, readily available source for plenty of places that literally can't keep the lights on. South Africa, for example, struggled mightily with the World Bank's environmental strictures that made it difficult to build a big new coal plant there; now rolling blackouts are a problem. And South Africa is the success story. The rest of Africa has a much bigger energy-access problem.

That highlights a paradox with the rich countries' decision to discourage financing coal plants on environmental grounds: Many of those nations are simultaneously trying to improve the energy prospects of the poorest countries.

The Obama administration, for example, launched the "Power Africa" initiative last summer but left one big source of power off the table while favoring clean, renewable energy instead. International financial support for wind power and solar power checks the green box but doesn't always light the fuse box.

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"The disconnect between the actual power requirements of the BRICS and other developing countries and what people in Washington think is doable is almost surreal," he added. "So this could be a very healthy wake-up call."

Even from the perspective of tackling climate change, the BRICS bank could ultimately end up fighting the good fight. For a decade, the United States, China, and other nations have sought the Holy Grail of clean energy: how to burn cheap and abundant mountains of coal without frying the planet. Technically, it's not difficult. New power plants can be constructed and existing ones retrofitted to trap carbon emissions. That carbon can then be pumped underground, rather than into the atmosphere. One new plant in Missouri does just that.

The problem is the price. Carbon capture and storage, or CCS, is very expensive. The plants devour even more coal because they are slightly less efficient. And storing the stuff requires pipelines, underground reservoirs, and other infrastructure all costlier than a smokestack.

In the absence of any real cost for emitting carbon -- such as a carbon tax or a trading scheme with teeth -- the economics of CCS simply don't work. Financing such programs is very problematic, as investment bank Société Générale has noted. Other than that plant in Missouri, there are only a handful of facilities worldwide even close to commercially ready.

That's where the billions of dollars in potential coal financing from the new bank could make a difference, by pushing CCS out of the experimental nest and into flight. One way to make clean coal cheaper is to build more plants using it, creating economies of scale and driving research into improved technology.

China desperately wants to make CCS a reality since about three-quarters of its electricity comes from coal, and capping emissions has become something of a national mission. Beijing's and Washington's CCS collaboration is a rare point of bilateral cooperation. China is even pouring money into a project in Texas.

"For CCS, that's a multilateral investment no-brainer, given the amount of coal we have today and the amount of coal that we're expected to deploy in the future," said Breakthrough's Trembath, noting that the New Development Bank has yet to outline its investment strategy.

The CATF's Cohen notes that Western finance bans on new coal plants have had only a limited impact on the deployment of dirty energy, so the self-imposed limitations don't always achieve their goals of a carbon-free developing world. China, Russia, Japan, and Germany have offered national financing for coal projects around the world. The prospect of multilateral development cash flowing into path-breaking coal plants is not unappealing.

"The hear-no-evil, see-no-evil attitude of the West with regards to fossil fuel is futile," said Cohen. He noted that China now has a fleet of coal-fired power plants triple the size of the American coal fleet; Africa, Latin America, and South Asia are also betting on coal when they can.

"Let's get on with it, but figure out how to do it right."

Jamila Trindle contributed to this article.

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