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The Climate change and Fossil Fuels (CLIFF) project studies policy challenges surrounding the energy transition

Ending export credit finance for fossil fuels

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Key Messages

1. **G20 governments have used public finance, channelled through ECAs, to provide $40 billion annually for the development of fossil fuel projects abroad from 2018-2020.**
2. **Many G20 countries committed to phase out public finance for fossil fuels at COP26 in 2021.**
3. **The commitments made at COP26 have yet to be implemented.**
4. **Delay, open-ended exemptions, and loopholes are being used to allow ongoing financing of fossil fuels, especially gas, which could lock in decades of further fossil fuel use.**
5. **These exceptions and investments in new gas infrastructure and extraction have devastating implications for climate goals.**

Introduction

As a follow-up to our last policy brief on Export Credit Agencies (ECAs) in 2020, we argue that the urgency for G20 countries to phase out fossil fuels domestically and through their public support abroad has greatly escalated. Ending the financing of fossil fuel projects through ECAs is crucial to comply with Article 2.1(c) of the Paris Agreement on Climate Change (PA) on financial coherence as well as commitments made at COP26 in Glasgow. Despite these commitments, countries are exploiting loopholes to continue to enable fossil fuel projects globally through their ECAs.

1. G20 governments have used public finance, through ECAs, to finance the development of fossil fuel projects abroad.

ECAs are a major funder of fossil fuel projects, with G20 ECAs providing $40.1 billion per year to fossil fuel projects between 2018-2020: **11 times the funding provided to clean energy projects** (Pusic, 2022). The influence of this finance goes beyond the dollar amount alone – many fossil fuel projects would not be built without the guarantees and insurance that ECAs provide.

ECAs aim to enable their own domestic industries to grow by de-risking their investments and exports abroad. G20 countries have much to gain from financing fossil fuel projects, including ensuring their access to energy and profiting from high revenues in the fossil fuel sector. However, while these investments ostensibly help developing countries to meet energy access needs and promote local development, they also present significant risks for developing countries. These include: being locked into fossil fuel trajectories through investments in fossil fuel infrastructure, greater risk of assets being stranded, lock-in through contracts protected by bilateral investment treaties, and for increasing their debt burden (Tofighi-Niaki et al., 2020).

2. High-income countries in Europe and North America committed to phase out public finance for fossil fuels at COP26.

At the 2021 COP26 meeting in Glasgow, 34 countries, including many European countries and the US, agreed in the Glasgow Statement to "end new direct public support for the international unabated fossil fuel energy sector by the end of 2022" (Messetchkova, 2021). This commitment came with a caveat: "except in limited and clearly defined circumstances that are consistent with a 1.5°C warming limit and the goals of the Paris Agreement." (ibid.). **Upholding this agreement could immediately redirect as much as $28 billion in public financing from fossil fuels to clean alternatives** (Dufour et al., 2022). However, as the agreed-upon deadline approaches, many country commitments are being watered down.

3. The commitments made at COP26 have yet to be implemented.

Analysis of the high-income signatories' public finance policies shows that most have yet to fully implement the commitments made in Glasgow, and that the policies of ECAs are particularly "off-track" (Dufour, et al., 2022). Only two countries in this analysis – Denmark and the United Kingdom – were found to have fully implemented the commitments of the Glasgow Statement. No ECAs from the other high-income signatories had (as of June 2022) yet aligned their policies with the Glasgow Statement. Since then, more countries have adapted their policies on ECA fossil fuel financing, however, these latest policy changes still include many exemptions and loopholes.

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4. Delay, open-ended exemptions, and loopholes are being used to allow ongoing financing of fossil fuels, especially gas, which could lock in decades of further fossil fuel use.

In the context of Russia's war on Ukraine and the subsequent energy crisis, many countries have watered down their commitments to support greater investment in gas. European members of the Export Finance for Future (E3F) initiative were expected to commit to pledges to end export finance support for "exploration, production, transportation, storage, refining, distribution of coal, crude oil, natural gas, and unabated power generation" (Alkousaa & Abnett, 2022). However, the final draft of the pledge was weakened, and allows each member country to decide which specific fuels they will stop financing. France's proposed policy "still allows support for oil and gas power plants, under the pretext that it could help with energy transition in developing countries" and for projects on carbon capture and storage (CCS) techniques (Le Monde, 2022). The new policy published by the Netherlands includes an exemption for projects which "safeguard the security of supply in Europe" and delays implementation of the policy until 2024 (Ministerie van Financiën, 2022). This delay could allow more than 10 fossil fuel projects to be approved (Both ENDS, 2022). Given their long lifespan, new gas projects could lock in gas use and associated emissions for decades to come. Policies which Italy, Germany, and Spain have committed to adopt by the end of 2022, are expected to allow for ongoing support for gas projects (Farand, 2022).

5. These exceptions and investments in new gas infrastructure and extraction have devastating implications for climate goals.

Under the banner of "clean" fuel, the bridge technology narrative pervades the energy landscape and discussions in both developed and developing countries, legitimizing further investment and growth of fossil fuels while postponing a phase-out. However, the impact of natural gas on the climate, health and environment has been greatly understated. Methane emissions are much higher than previously projected and have a heat-trapping potential 30 times greater than CO_2 over a time span of 100 years an even 85 times greater over a 20-years span (Landrigan et al., 2020). The widespread bridge technology narrative encourages investment and production while hampering decarbonization efforts through carbon lock-in and stranded assets. Natural gas and its infrastructure have limited potential to reduce emissions, entails the risk to be stranded and if used in the long run, climate objectives cannot be met (Kemfert et al., 2022, Landrigan et al., 2020).

6. Recommendations

G20 countries must end export finance guarantees and insurance for fossil fuel projects immediately and redirect this finance towards renewable sources. Given that recent estimates suggest that as much as $2 trillion per year will be needed for developing countries to transition and cope with climate change (Songwe, et al. 2022), it is crucial to urgently reallocate public finance away from damaging investments. Continuing to finance new fossil fuel projects will have devastating consequences for both the climate and developing countries.

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