Briefing for Policy Makers: An agenda for greening Export Credit Agencies in 2021

February 2021

Purpose - *This briefing provides an overview of recent steps taken and announcements made by governments and their export credit agencies (ECAs) to align export credit finance with the Paris Agreement goals. It highlights opportunities across the next months for governments to deliver further progress on this agenda, recommending actions that can be taken domestically and internationally. This briefing has been written by E3G (louise.burrows@e3g.org) and Oil Change International (laurie@priceofoil.org). We would be happy to discuss these ideas further.*

CONTEXT

Momentum is building to end ECA support for fossil fuels

In December 2020, PM Boris Johnson announced that the UK will end all public finance for fossil fuel projects overseas, including export finance. This makes the UK the first major economy to end export finance for oil and gas. In January 2021 the new Biden Administration similarly issued Executive Orders focused on ending US public finance for fossil fuels, including that provided by US EXIM Bank. During the same week, the EU foreign affairs council agreed to discourage further investments in fossil fuel based energy infrastructure projects in third countries; an immediate end to all financing of new coal infrastructure; and to promote a global phase out of harmful fossil fuel subsidies. These are significant shifts in policy and political sentiment and create potential for accelerating global climate action. Ending ECA financing for fossil fuels is particularly critical to meet climate goals, as ECAs remain the largest international public financiers of fossil fuels. Between 2016 and 2018 the G20 ECAs provided nearly fourteen times as much finance for fossil fuels ($40.1 bln) as for clean energy ($2.9 bln) annually.

Leading institutions are starting to restrict not just coal, but also oil and gas financing

After largely moving away from coal, leading governments and public finance institutions (MDBs, DFIs and ECAs) are starting to take steps to also restrict public finance for oil and gas as part of their Paris-alignment efforts. The President of the European Investment Bank recently stated: *"Gas is over"*. At the World Economic Forum, the US climate change envoy John Kerry contested the gas industry's positioning of natural gas as a bridge fuel. These statements are strong signals that leading governments will accelerate action to shift their public finance out of fossil fuels. In turn, this can unlock renewed progress on restricting ECA finance for fossil fuels at the OECD level, where efforts had stalled during the Trump Administration. Members previously agreed to restrict export finance for coal-fired power plants in 2015, but significant sums of coal financing, and nearly all oil and gas financing continues unrestrained. As public financial institutions, ECAs must reflect their respective governments' Paris alignment commitments and end their financing for all fossil fuels.

Setting a gold standard for other countries to follow

Since leading governments are starting to restrict ECA financing for oil and gas, this is the moment for the most progressive governments to set a gold standard for Paris-alignment of ECA energy finance for other countries to follow. Ultimately, further fossil fuel investment is incompatible with keeping warming below 1.5˚C and protecting the most vulnerable communities and ecosystems. As such a science-based policy should put an immediate end to new ECA finance for fossil fuels, without any loopholes for, for example, gas. This type of leadership is of particular importance at this moment, as ECAs prepare to deploy historic levels of public finance in response to COVID-19. Their actions must deliver a resilient, Paris-aligned recovery that will not exacerbate the climate crisis.

RECOMMENDATIONS

2021 provides important opportunities for government officials to secure the decarbonization of ECAs. Below are a set of recommendations on how governments and their respective ECAs can take such action at both a domestic and international level.

At the international level:

1. **Launch a leadership coalition focused on ending public finance for all fossil fuels:** With recent commitments from the UK, the US and the EU, there is momentum for creating a global coalition of fossil free public finance institutions. With a range of summits on the horizon including the Biden Climate Summit, the G7, and the G20, there are near term opportunities to launch this initiative and mobilise other countries to join, securing strong commitments by COP26. This coalition should work to decarbonize ECAs, DFIs and MDBs at both a unilateral and multilateral level.
2. **End ECA coal finance:** At the upcoming revision of the OECD Coal-Fired Sector Understanding (CFSU) leading governments should advocate for an explicit exclusion of investments for all new coal-fired power plants, thermal coal mining, and associated coal facilities. Securing a strong CFSU revision will help address the dual risks of stranded assets and climate damage and should support the structural shift away from coal that is underway internationally. It would also provide a foundation for further action by other countries and international financial institutions as the OECD standards help set global norms.
3. **Develop proposals for OECD oil and gas export finance restrictions:** Since a number of governments are starting to restrict ECA finance for oil and gas, there is an opportunity to start advocating for an OECD oil and gas sector understanding that ends export finance for oil and gas projects by the end of 2021 and would complement the CFSU. As it stands, there is no OECD framework that covers oil and gas. Considering the Paris Agreement came into effect over five years ago, this type of framework is overdue.
4. **Support a modernisation of the OECD ECA Arrangement:** The Arrangement was first established in 1978, and since that time it has been periodically updated, but has not been subject to a comprehensive review. ECAs should support the modernisation of the Arrangement to reflect global climate commitments. It can do so by including a reference to the commitment under the Paris Agreement (article 2.1c) to align financial flows with low-carbon development pathways. In addition, the scope of the Arrangement must be widened to cover all types of ECA financing instruments, thereby closing any ‘non-arrangement’ loopholes. This includes finance instruments linked with overseas development assistance, loan agreements and investments and other non-concessional finance instruments.

At the domestic level:

5. **End export finance for fossil fuels:** ECA policies and portfolios must reflect their respective governments’ climate change and fossil fuel phase out commitments.This means following at least the UK’s level of ambition and excluding all support for fossil fuels, including gas-fired power, and associated infrastructure. This must be implemented at least by COP26.
6. **Take a whole of government approach:** Ensure cross-government alignment when it comes to adopting policies on ending international finance for fossil fuels, including not just ECAs but also support through DFIs, MDBs and trade promotion.
7. **Improve transparency** through the timely reporting of projects supported by ECAs, their projected emissions including scope 3, as well as Paris-alignment assessments.

SUPPORTING INFORMATION: AN OVERVIEW OF ECA FOSSIL FUEL EXCLUSION POLICIES IN SELECTED COUNTRIES

	Country/ECA	Fossil Fuel Exclusion Policies
1	**United Kingdom:** UKEF	After committing to end coal export finance in January 2020 the UK government announced an end to international public finance for all fossil fuels at the Climate Ambition summit the following December. This includes UK export finance. The UK the first major economy to end export finance for oil and gas. The government launched a consultation to inform the implementation of this policy that will close on 8 February 2021. The final policy is expected soon after.
2	**Sweden:** SEK / EKN	EKN will end export credits for fossil fuel exploration and extraction including for associated infrastructure such as construction machinery used for the extraction of coal and oil or gas or fire protection equipment for oil drilling platforms by 2022. It committed to end guarantees for coal-fired power plants in 2018, and ended guarantees for coal mining at the end of 2020. SEK has joined the Fossil Free Sweden Initiative and has limited lending to oil, gas, and coal to max 5% of its total lending and will, like EKN, end export finance for oil and gas extraction by 2022. Sweden has not yet committed to ending export finance for midstream or downstream fossil fuel infrastructure.
3	**Denmark:** EKF	EKF does not provide direct support for coal and has formalized this practice by adopting further restrictions for export credit support for coal in September 2020. Though Denmark has not yet committed to ending oil and gas export finance, EKF's last known support to an oil project was allocated in 2018 for a power plant in Bermuda. No EKF support for gas projects has been identified. At the domestic level, in December 2020 Denmark announced an end to new licensing rounds for domestic oil and gas production, and a full phase-out of oil and gas production by 2050.
4	**France:** Bpifrance	France will end export finance for unconventional oil and gas and extra heavy oil by 2021 and ended support for routine flaring in 2020. In late 2020 a new policy was adopted that will end export finance for other gas exploration and production projects by 2035, and oil exploration and production by 2025. France ended its support for coal exploration, mining, production and coal-fired power in 2015. Investments in existing coal plants are allowed if this does not extend the lifetime or capacity of coal plants (support for retirement of plants or CCS). France has committed to not support fossil fuel-fired power when this does not "improve" the energy mix of the host country.
5	**Netherlands:** Atradius DSB	As of 1 January 2021, the Dutch government will no longer support routine flaring and fracking via its ECA, but other oil and gas support and support to associated infrastructure, which remains significant, continues to go unrestrained. The Dutch government ended support for coal projects overseas via its ECA in 2014. In January 2021 the Dutch government and Atradius adopted a green taxonomy to guide ECA support for green projects and are currently developing a number of scenarios for ending ECA fossil fuel finance.
6	**US:** US EXIM	To implement its Executive Orders On Tackling The Climate Crisis the US is "developing a plan for ending international financing of fossil fuel projects with public money," as described by Climate Envoy John Kerry. Relevant Cabinet Secretaries have been directed to work with US EXIM and the US International Development Finance Corporation to identify steps through which the United States can promote ending international financing of fossil fuel-based energy. The Biden administration is also developing a "climate finance plan" that will focus on "promoting the flow of capital toward climate-aligned investments and away from high-carbon investments" within 90 days of the Executive Order.