

## FACTSHEET

JUNE 2021

# SHIFTING G7 FOSSIL FUEL FINANCE TO CLEAN ENERGY

## BACKGROUND

On 11–13 June 2021 world leaders are gathering for the United Kingdom (UK) hosted G7 Summit. The Summit comes at a critical moment, just five months before the next big UN Climate Summit, COP26, also hosted by the UK. For their June Summit, G7 members have set themselves the task to “*build back better from coronavirus and create a greener, more prosperous future*”.<sup>1</sup>

The science tells world leaders that building a green and prosperous future means a rapid decline of fossil fuel production and use. The International Energy Agency’s (IEA) net-zero scenario that gives a 50% chance to stay below 1.5°C global warming published in May shows investments in new fossil fuel supply beyond 2021 are incompatible with this target.<sup>2</sup> The UN Secretary General, Antonio Guterres, is also calling on countries to stop financing fossil fuels, saying: “*We can no longer afford big fossil fuel infrastructure anywhere. Such investments simply deepen our predicament. They are not even cost-effective.*”<sup>3</sup>

Research shows that even if coal were phased-out overnight the emissions from oil and gas fields already under development would push the world beyond 1.5°C.<sup>4</sup> According to the United Nations Environment Programme (UNEP) the production of oil and gas needs to decline by 4% and 3% respectively every year until 2030 to stay below 1.5°C.<sup>5</sup> UNEP’s recent Global Methane Assessment adds that “*without relying on future massive-scale deployment of unproven carbon removal technologies, expansion of natural gas infrastructure and usage is incompatible with keeping warming to 1.5°C*”.<sup>6</sup>

Referring to the science, professor Jorge E Viñuales from the University of Cambridge and barrister Kate Cook of Matrix Chambers conclude in a legal opinion published in May 2021 that under international law governments have an obligation not to finance new fossil fuel projects.<sup>7</sup> This suggests that governments and their public finance institutions face potential litigation risk unless they stop financing fossil fuel projects. The ruling in the climate court case filed by Milieudefensie and others against Shell in the Netherlands shows such litigation risks can have very real consequences. The Court ordered Shell to reduce its emissions by 45% by 2030 in line with emission reduction pathways that give a 50% chance to keep global warming limited to 1.5°C.<sup>8</sup>

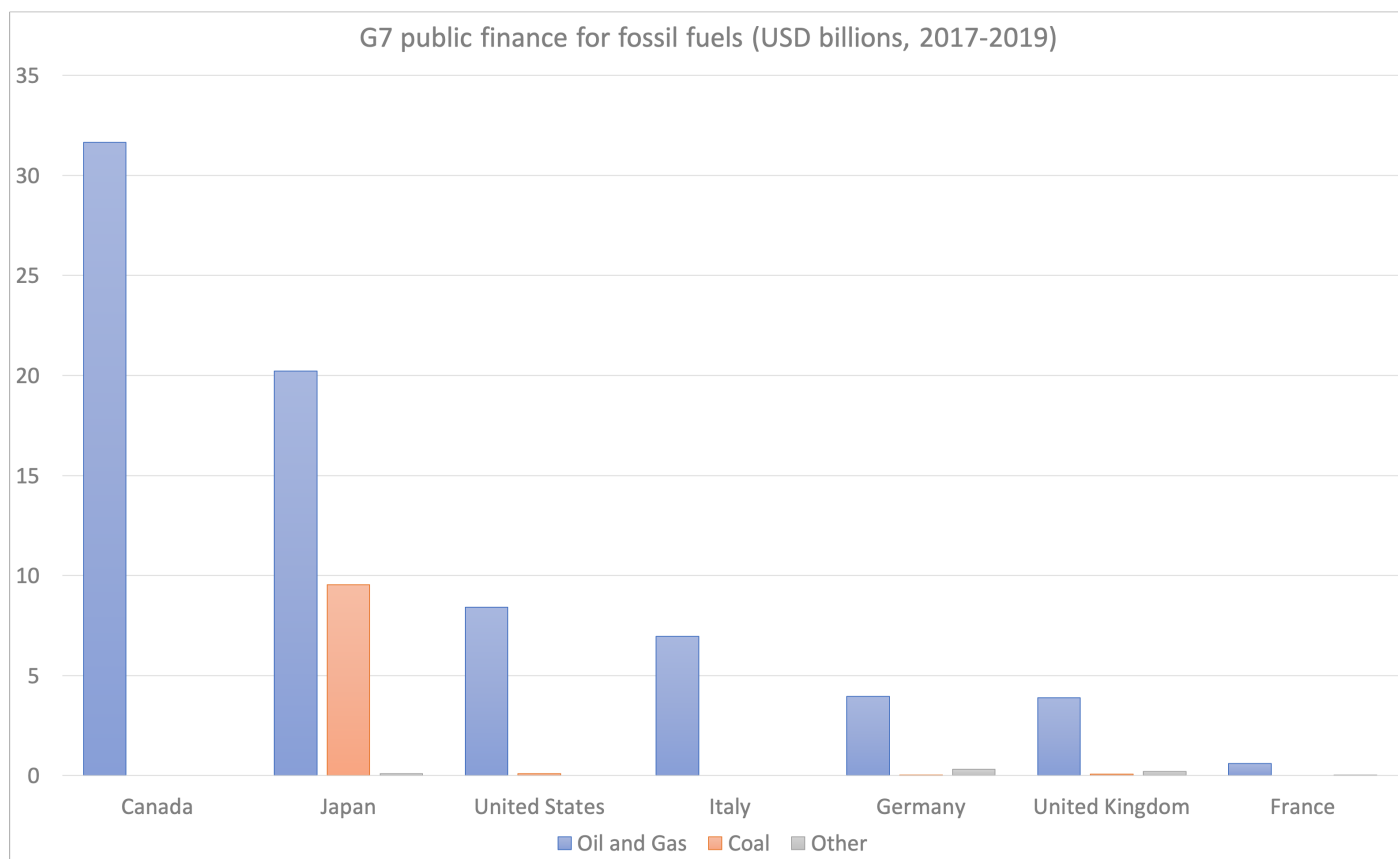
## G7 commitments on public finance

This gives G7 governments a clear task as they deploy historic levels of public finance in response to COVID-19. Their finance needs to shift completely out of new fossil fuel supply by the end of 2021. They have an important opportunity to shift this money to

clean energy, just transition measures and increased support for the clean energy transition in developing countries, which will in turn help create the jobs needed to build back better from COVID-19.

In May 2021, G7 Environment Ministers adopted a statement putting an end date to international finance for coal-fired power, saying: “we ... commit to take concrete steps towards an absolute end to new direct government support for unabated international thermal coal power generation by the end of 2021”.<sup>9</sup> They also committed to “phase out new direct government support for carbon intensive international fossil fuel energy, except in limited circumstances at the discretion of each country,” but while putting an end date to coal finance, the end of 2021, they failed to put a timeline on ending oil and gas support.

All G7 members apart from Japan have already largely moved away from financing coal. This means the majority of remaining G7 public finance for fossil fuels flows to oil and gas (see figures below). Also when it comes to ending oil and gas finance, there is no time to waste.



Source: Oil Change International Shift the Subsidies Database.

## International momentum on ending public finance for fossil fuels

The UK has already taken important steps on ending not just coal, but also oil and gas finance. In March it adopted a new policy that put an immediate halt to new finance for fossil fuel projects overseas.<sup>10</sup>

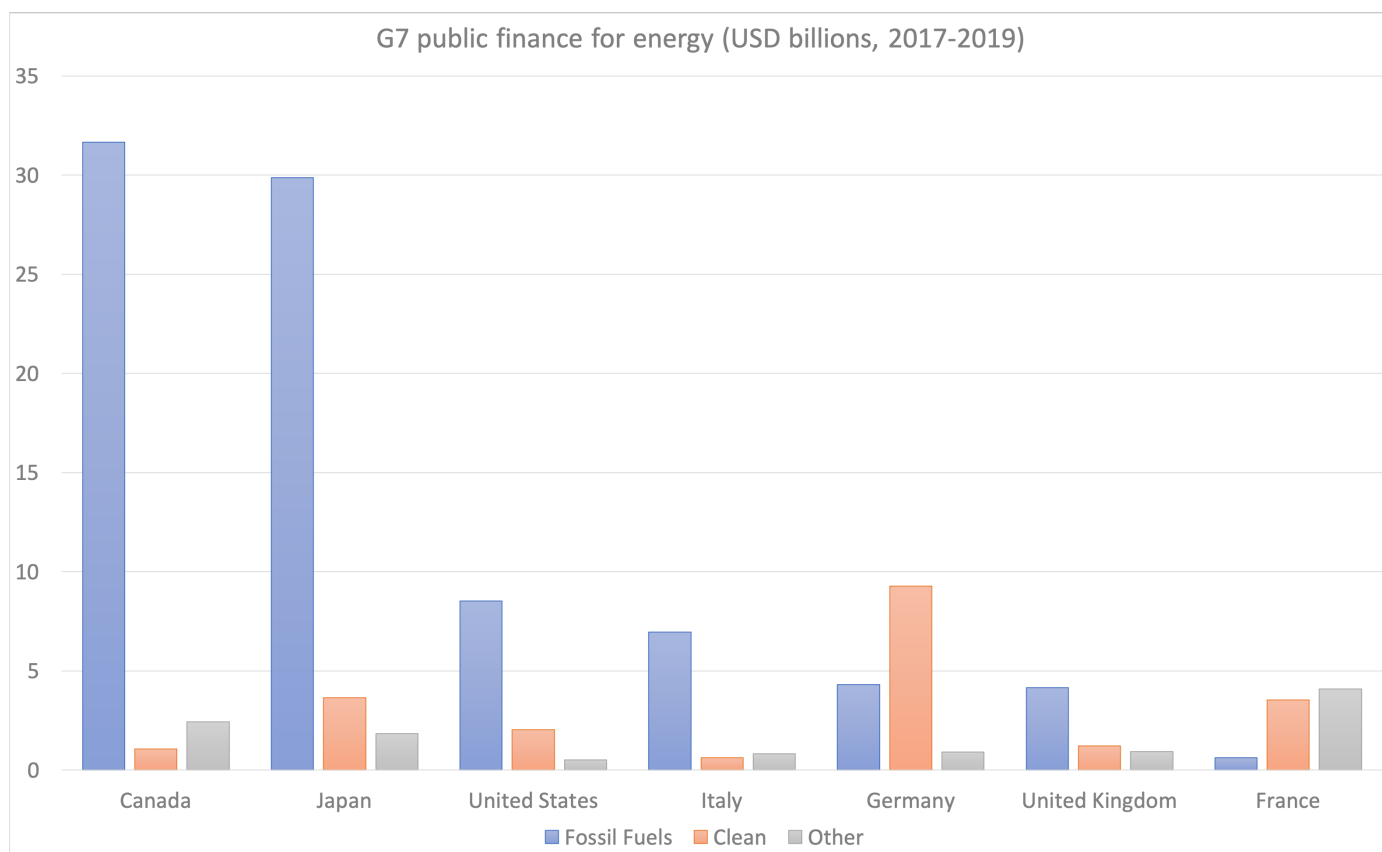
Between 2017 and 2019 this support still amounted to USD 4.2 billion a year. The UK is the first major economy to take this step. As this year's G7 and COP26 host, it is in a unique position to live up to its commitment to *"work with like-minded partners to make similar commitments"* and to *"convene a vision for how other countries, public and private financial institutions and multilateral development banks can accelerate the energy transition by collectively shifting international support from all forms of fossil fuels to clean energy."*<sup>11</sup>

It is critical that the UK works with other G7 members to ensure they follow its lead. Between 2017 and 2019, together with the UK, they still provided on average USD 86 billion in public finance for fossil fuels.

This is four times their support for clean energy over the same period estimated at USD 21 billion. Though their overall public finance figures for energy were lower in 2019, the share provided to fossil fuels was higher than in previous years: 79%. Canada, Japan, and the United States were the worst offenders, providing USD 32, 30, and 9 billion, respectively, in public finance for fossil fuels between 2017 and 2019.

Fortunately, shifts in policy and political sentiment create potential for accelerating actions to shift public finance out of all fossil fuels and into solutions.

At the start of 2021, EU foreign affairs ministers agreed to *"[D]iscourage all further investments into fossil fuel based energy infrastructure projects in third countries"*.<sup>12</sup> This should mean an end to public finance for fossil fuel projects from the EU G7 members, France, Germany and Italy. In addition, in March, France and Germany joined the Export Finance for Future (E3F) coalition that committed *"to assess how to best phase out export finance support to oil and gas industries"*.<sup>13</sup>



Source: Oil Change International Shift the Subsidies Database.

In January 2021, the US Biden administration released an executive order stating that the US will seek to “promote ending international financing of carbon-intensive fossil fuel-based energy”.<sup>14</sup> At the Biden Climate Summit in April, the US announced that it wants to “spearhead efforts to modify disciplines on official export financing provided by OECD export credit agencies (ECAs), to reorient financing away from carbon-intensive activities”.<sup>15</sup>

## Canada and Japan blocking the way

This leaves Canada and Japan as not only the largest financiers of fossil fuels in the G7, but the only G7 members that have not signalled an intention to shift their public finance out of not just coal, but also oil and gas. In addition, Japan is the only G7 country still building new coal plants at home and the only G7 member that has not yet committed to a phase-out of coal-fired power.

While Japan signaled its intention to largely stop financing overseas coal power plants last year, the Japan International Cooperation Agency is still lined up to finance the proposed Matarbari 2 and Indramayu coal plants in Bangladesh and Indonesia. In the days leading up to the Biden Climate Leaders Summit, Japan pledged support for LNG project finance, building on its \$10 billion commitment to expanding the LNG market in Asia.<sup>16</sup>

According to the IEA, 2021 must mark the end to investments in new fossil fuel supply. This presents G7 members with an opportunity to, this year, shift all their fossil fuel finance to much-needed solutions. Ending new fossil fuel finance can free up billions a year to invest in building back better from the coronavirus, just transition measures and increased support for equitable climate finance in developing countries.

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## References

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The factsheet uses data from OCI's Shift the Subsidies database. The database tracks energy finance from public finance institutions from the bottom up, at the project level. In addition to reviewing information made publicly available by majority government owned financial institutions and other public sources of information, this database draws information from the Infrastructure Journal (IJ) Global database and Boston University's Global Economic Governance Initiative's China Global Energy Database. The amounts recorded reflect only the public finance dedicated to a project and not the value of the private finance mobilised by such transactions. Entries are included based on the date a transaction is finalised, not their initial announcement.

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