OPPORTUNITY TO SHIFT G7 FINANCE FROM **FOSSILS TO CLEAN ENERGY**

FACTSHEET MAY 2022

Gas power plant in Thailand by Thossaphol

BACKGROUND

This briefing illustrates how G7 public finance flows remain severely misaligned with climate goals. G7 public finance for fossil fuels between 2018 and 2020 totalled over USD 100 billion, four times its support for renewable energy. However, G7 leaders have a critical opportunity this year to shift their finance out of fossil fuels and into energy efficiency and clean energy.

On 26-28 June 2022, the 48th G7 Summit will be held in Germany. Leaders of the world's largest economies aim to make "progress towards an equitable world," which includes building "strong alliances for a sustainable planet."[1] The meeting follows the release of the third installment of the Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report, which shows that emissions from already existing infrastructure alone will exceed the remaining carbon budget for a 1.5°C warming limit.[2] The report also concludes that public finance plays a critical role in closing the financial gap to mitigate climate change, enabling emission reductions and a just transition to clean energy.

> G7 leaders have a critical opportunity this year to shift their finance out of fossil fuels and into energy efficiency and clean energy.

At the UN Climate Change Conference in Glasgow in November 2021 (COP26), 39 countries and institutions committed to end international public finance for fossil fuels by the end of 2022 and instead prioritize clean energy finance.[3] All G7 nations – except for Japan – signed this commitment.[4] If the G6 succeed in encouraging Japan, the world's second-largest provider of public

finance for fossil fuels, to follow suit, and implement their commitments with integrity, this will help shift billions into energy efficiency and clean energy solutions. Such a shift would provide the most effective response to the compounding debt, war, climate, and energy price crises. Getting Japan on board is especially important as Japan is set to hold the G7 presidency next year.

Fossil fuel financing is also inextricably linked to Russia's inhumane invasion of Ukraine. Reducing Putin's power requires world leaders to move away from importing Russian oil and gas. While G7 leaders agreed to phase out or ban the import of Russian oil in May 2022, some leaders have called for new investments in Liquefied Natural Gas (LNG) projects to replace supply from Russia and are considering backing such projects with public finance.[5] It is important to note that many countries with the largest gas reserves are not bastions of democracy and supporting new gas infrastructure contributes to supporting such undemocratic regimes.

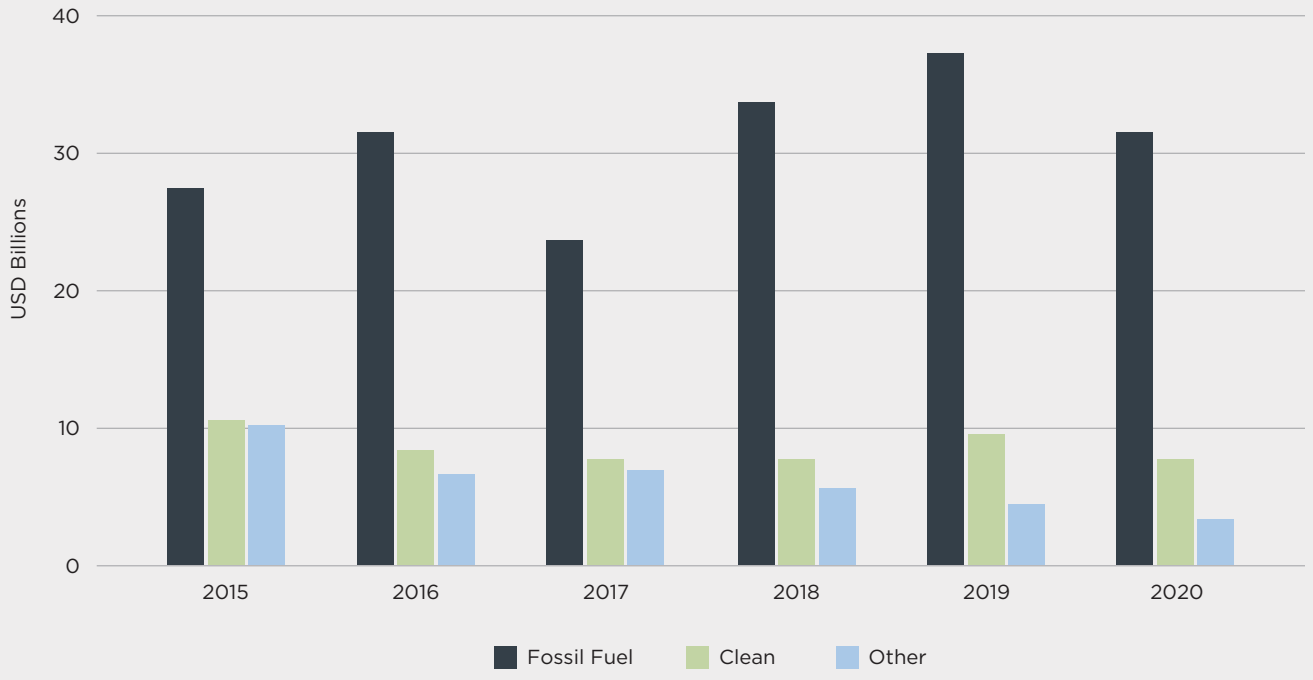
Analysis shows that there is no room for investments in new oil and gas production and transport infrastructure in a pathway to net zero.[6] G7 countries have a responsibility to significantly increase their international clean energy finance, which has stagnated since at least 2015. **In other words, G7 leaders have the necessary evidence, responsibility, and clear mandate to lead the international community away from fossil fuels. They must end public financing of fossil fuel projects and increase their public finance support for clean energy.**

G7 PUBLIC FINANCE IS SKEWED TOWARDS FOSSIL FUELS

When parties to the United Nations Framework Convention on Climate Change (UNFCCC) adopted the Paris Agreement in 2015, they agreed to make "finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."[7] In 2021, the International Energy Agency's *Net Zero by 2050* scenario called for ending fossil fuel expansion after 2021.[8] In April 2022, the IPCC warned that in order to limit warming to around 1.5°C, substantial reductions in fossil fuel use are necessary – global greenhouse gas emissions must peak by 2025 at the latest.[9]

Despite these agreements and warnings, **G7 countries have increased overall financing for fossil fuels since 2017**. Between 2018 and 2020, G7 public finance for fossil fuels totalled over $100 billion, which was four times its support for clean energy.[10] This includes financing provided through development finance institutions and export credit agencies. Rather than growing significantly as needed, G7 clean energy finance has stagnated since the adoption of the Paris Agreement.

Figure 1: G7 international public finance for fossil fuel, clean and other energy, 2015-2020, USD billions



Source: Oil Change International Shift the Subsidies Database.

At the 2021 G7 Summit, G7 leaders committed to "an end to new direct government support for unabated international thermal coal power generation by the end of 2021"[11] but failed to put a timeline on ending oil and gas support. While G7 countries' public finance for coal declined from roughly $6.4 billion in 2016 to $650 million in 2020, public finance for gas jumped from $11.5 billion to $18 billion over the same period.

Reliance on oil and gas has proved especially problematic since the Russian invasion of Ukraine. Oil and gas extraction are not only harmful to the environment and local communities, they also expose countries to geopolitical conflicts and volatile fuel prices, as the G7 countries have experienced since Russia invaded Ukraine. In Japan, core consumer prices jumped 0.6 percent in February 2022 – the sharpest rise in the past 41 years – placing a huge burden on domestic consumers and taxpayers.[12]

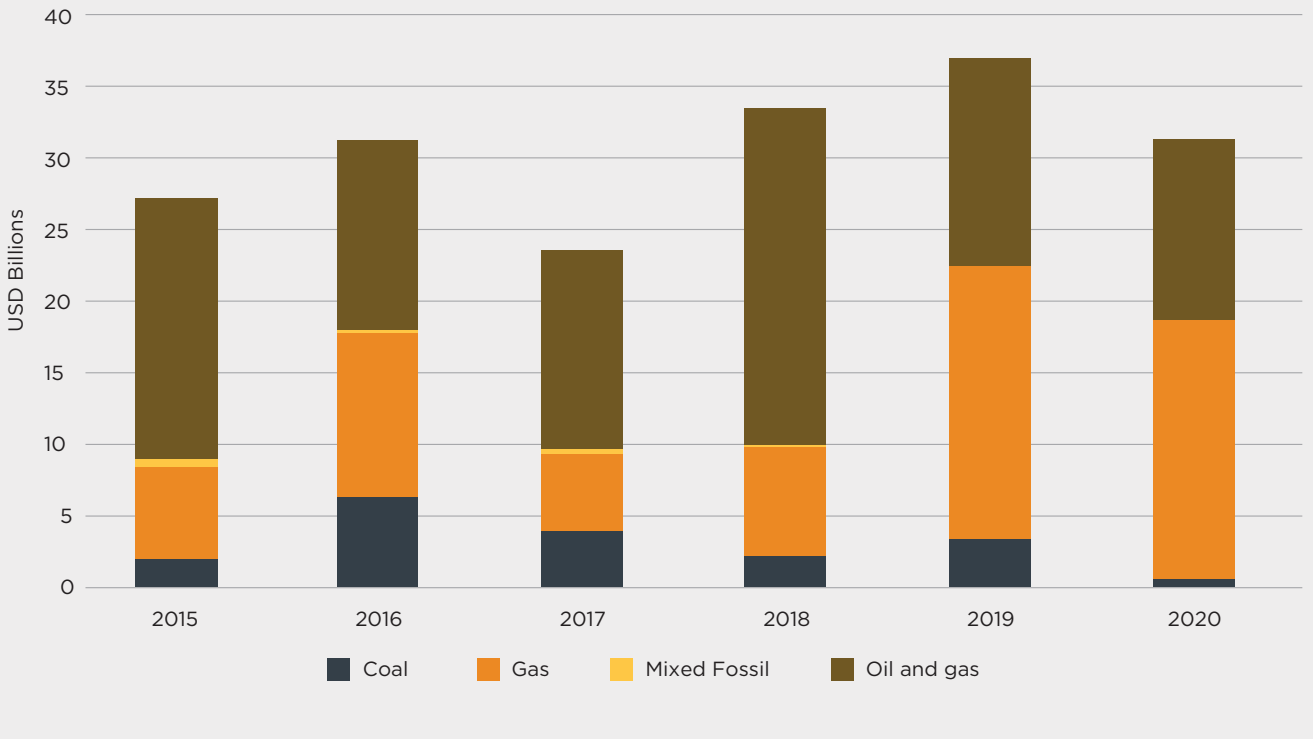
Instead of funneling public finance into extracting and subsidizing increasingly risky fossil fuels, a more effective response is to use public finance strategically to reduce dependency on fossil fuels and accelerate the buildout of renewable energy. The IPCC points out that while climate finance to limit warming to 2°C is"a factor of three to six times lower than levels needed by 2030," the global capital and liquidity required to close investment gaps already exist.[13] It falls on world leaders to guide these financial flows towards cleaner, safer choices, signaling government priorities to help reduce inequities in access to finance and to reduce risks for private investors.

This year's G7 Summit will be a critical opportunity for G7 countries to shift their public finance out of oil and gas and into energy efficiency and clean energy. At COP26 in November 2021, all G7 countries except for Japan signed the Glasgow Statement on International Public Support for the Clean Energy Transition, which includes a commitment to "end new direct public support for the international unabated fossil fuel energy sector by the end of 2022, except in limited and clearly defined circumstances that are consistent with a 1.5°C warming limit and the goals of the Paris Agreement" and prioritize support for the clean energy transition. Unlike last year's G7 commitment, this statement also covers oil and gas. As this year's host, Germany has an important opportunity to build on the Glasgow commitment and encourage Japan, as the second-largest provider of international public finance for fossil fuels, to follow suit. This is particularly timely as Japan prepares to host the G7 next year.

A CLOSER LOOK AT JAPAN

From 2018-2020, the Japanese government provided $10.9 billion on average each year for overseas oil, gas, and coal projects, making it one of the largest providers of public finance for fossil fuels worldwide, exceeded only by Canada.[14]

Figure 2: G7 international public finance for fossil fuels by type, 2015-2020, USD billions



Source: Oil Change International Shift the Subsidies Database.

JAPAN'S LEADING ROLE IN EXPANDING GAS CONSUMPTION ACROSS ASIA

While Japan's public financing of coal has been decreasing, the country plays a leading role in expanding gas consumption and infrastructure projects across Asia – particularly LNG projects. Despite Japan's decrease in domestic demand for gas, Japan aims to maintain its influence in the global gas market by playing a role in increasing the demand for gas in the Asian region.[15] In May 2021, Japan pledged $10 billion to the Association of Southeast Asian Nations' energy ministers to finance LNG and renewables projects through the Asia Energy Transition Initiative (AETI), which aims "to simultaneously achieve sustainable economic growth and carbon neutrality in Asia."[16] This follows on a previous $10 billion commitment to expand LNG markets in 2019[17] and the repositioning of its state-run Japan Oil Gas and Metals National Corporation (JOGMEC) to allow for financing of Japanese companies involved with midstream LNG infrastructure.[18]

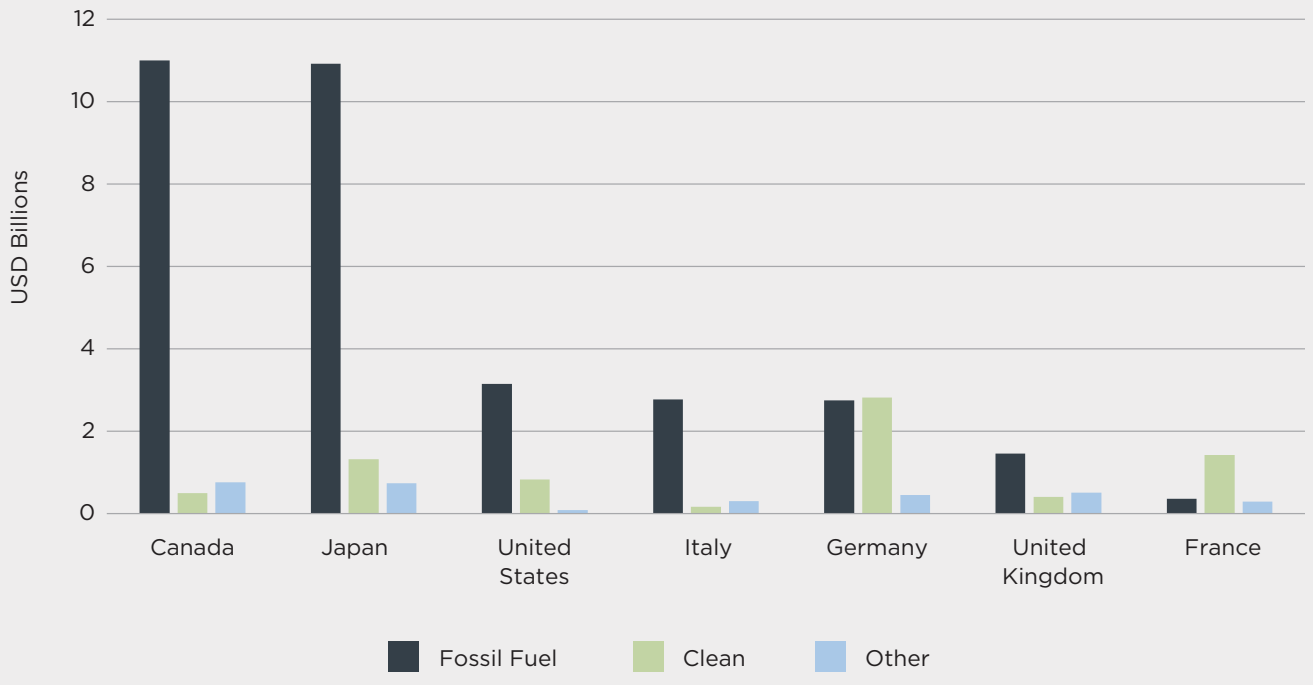
Research shows that, globally, gas infrastructure expansion is not consistent with the 1.5°C temperature limit of the Paris Agreement,[19] and that clean energy alternatives are available and better suited to deliver on energy access and sustainable development needs in the Global South. Solar is already the cheapest new source of energy in China, India, Thailand, and Vietnam. Renewables will become the cheapest way to supply electricity across Asia before the end of this decade. Together with advanced grid development and management, as well as increasingly cheaper storage, renewables can provide an affordable, stable backbone for a clean energy economy.[20] However, instead of transitioning to a sustainable, more stable energy future, the Japanese government is entrenching itself and the Asian region deeper into dirty and risky gas infrastructure projects.

PROMOTING TECHNOLOGIES TO PROLONG THE USE OF COAL

Despite Japan's G7 commitment to phase out coal by the end of 2021, Japan is promoting ammonia co-firing which will extend the lifetime of dirty coal plants. However, this technology is not economically viable. Bloomberg New Energy Finance estimates that co-firing coal with 20% ammonia in Japan would add 86% to the levelized cost of electricity of coal-fired power today and 59% by 2040.

JERA, Japan's largest power company, is planning to spend $600 million to develop ammonia technologies with 70% of the money coming from the government's climate innovation fund. The Japanese Economy, Technology and Industry Minister Koichi Haguida recently signed memoranda to cooperate on ammonia technology with Indonesia, build supply chains for hydrogen and ammonia with Singapore, assist Thailand in mapping its path toward

Figure 3: G7 international public finance for energy by country, annual average 2018-2020, USD billions



Source: Oil Change International Shift the Subsidies Database.

decarbonization, and increase production of ammonia with Russia. Ammonia co-firing is a dangerous distraction.

UNDERMINING INTERNATIONAL NEGOTIATIONS ON PUBLIC FINANCE

Japan has a well-documented track record of blocking international efforts to reach the Paris climate goals and end support for fossil fuels. Most recently, this occurred during the last G7 meeting, as well as at the Finance in Common Summit and the OECD Arrangement on Export Credits in September 2021.[21] This year, there have been reports that Japan has opposed efforts to include language on phasing out domestic coal-fired power plants by 2030 and on international public finance in the upcoming G7 Climate, Energy and Environment Ministerial statement.[22] Japan has already pledged to align its international investments with the Paris Agreement in its Long-term Strategy in 2019, and needs to follow through with its promises.[23]

CALL FOR G7 NATIONS TO END PUBLIC FINANCE FOR FOSSILS AND INVEST IN CLEAN ENERGY

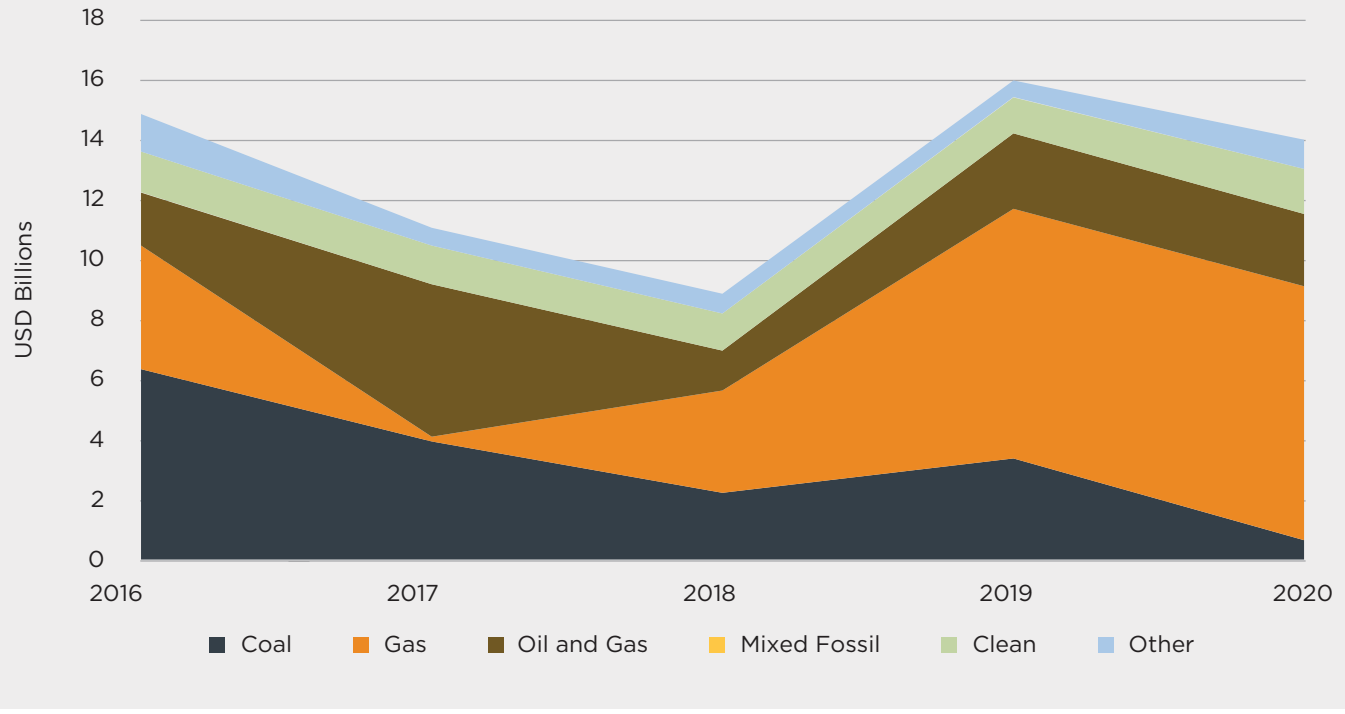
This year's G7 Summit is a huge opportunity for G7 nations to build on the Glasgow commitment and take a united stand against unsustainable and risky fossil fuels. It is critical that the Japanese government join its fellow G7 nations in endorsing the commitment and ending its public finance for fossil fuels.

This would build on the international momentum created by the UK's leadership at COP26 and the global move away from Russian fossil fuels. The necessary response to the compounding debt, war, climate, and energy price crises is to strategically use public finance to reduce dependency on volatile, conflict-fueling fossil fuels and to accelerate the buildout of renewable energy without further increasing debt burdens.

If G7 leaders do not make clear, fixed commitments to end fossil fuel financing this year, there is a significant risk that Japan, as next year's G7 host, will dilute G7 commitments on public finance and advance its own interests in gas

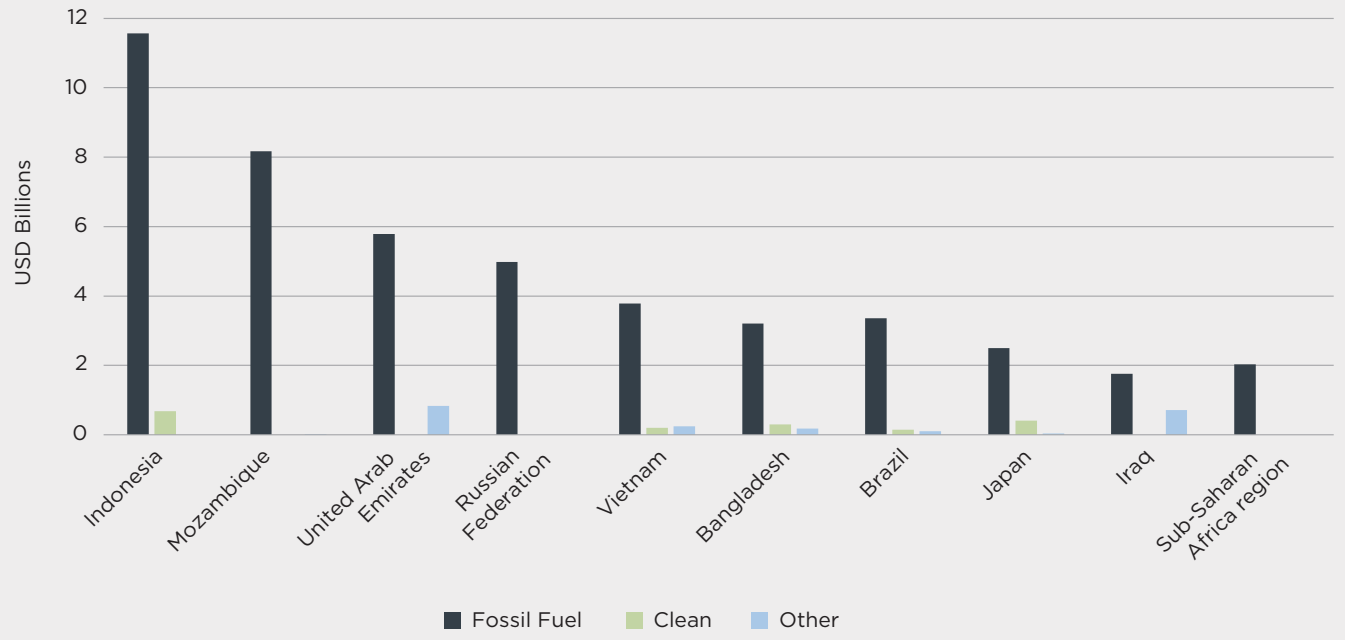
> The Japanese government is entrenching itself deeper into dirty and risky gas infrastructure projects in Asia and globally.

Figure 4: Japan public finance for energy, 2016-2020, USD billions



Source: Oil Change International Shift the Subsidies Database.

Figure 5: Top 10 recipients of Japanese energy finance, 2016-2020, USD billions



Source: Oil Change International Shift the Subsidies Database.

expansion and the co-firing of hydrogen and ammonia with fossil fuels.[24] However, if the G7 takes action to align public finance with the clean energy transition, it will increase the ambition of larger international communities such as the G20 and OECD, and make meaningful advances toward a sustainable, peaceful, and stable energy future.

ENDNOTES

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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.