Comments to 'Aligning UK international support for the clean energy transition' public consultation

February 8, 2021

A joint submission by VedvarendeEnergi (Denmark) and Swedwatch (Sweden)

VedvarendeEnergi and Swedwatch welcome the United Kingdom government's opening of the public consultation on 'Aligning UK international support for the clean energy transition'. VedvarendeEnergi and Swedwatch are non-governmental organizations that have engaged extensively with governments of the Powering Past Coal Alliance, the European Commission and respective national governments on export and international development finance specific to policies that support the phase-out of fossil fuels.

We welcome the numerous positive features of the draft policy with some suggestions for strengthening it and note that the UK government announced at the Climate Ambition Summit (December 12, 2020) the pledge to halt public subsidies and financing for fossil fuel projects abroad.

In amplifying the said 2020 pledge and mitigating substantial negative impact on the UK's climate leadership, an immediate implementation of the improved policy effectively ending all forms of public financing for fossil fuels overseas in March 2021 (option A) will be critical for the UK's international policy credibility on climate. This approach should apply to fossil fuel projects in the pipeline or under appraisal by March 2021. Attempts to weaken the policy or to extend the timeline for the policy to take effect must be defied.

A fast timeline will lay the foundation for strong and effective UK leadership on overseas fossil fuel finance and coalition-building at COP26 and beyond and has the potential to drive policy changes in other countries and institutions in order to meet their climate objectives.

Climate science is univocal: According to data from the IPCC, World Energy Council and oil industry databases, the potential carbon emissions from the oil, gas, and coal in the world's currently operating fields and mines would take us beyond 2°C of warming. The reserves in currently operating oil and gas fields alone, even with no coal, are projected to cause a warming above 1.5°C. Given the urgency of the climate crisis, it is only logical to stop investing in fossil fuels extraction and upstream and downstream infrastructures.

The phase-out of UK Export Finance support for oil and gas "is unlikely to have a meaningful negative impact" on UK domestic oil and gas jobs, according to Vivid Economics. The impacts of the proposal to end support through UK Export Finance on the UK's domestic oil and gas industry must not be exaggerated or conflated with the impacts of existing problems in the domestic North Sea oil and gas industry (such as low oil prices and the COVID-19 pandemic), which is already in permanent decline.

Denmark and Sweden have already taken steps in restricting export credits supporting fossil fuels and associated activities. In the recently launched 2020 Global Climate Action Strategy, the Danish government pledged to shift global financial flows from fossil fuels to green, climate friendly investments.

In Sweden, the credit export agency EKN has already phased out export credit guarantees to coal mining and coal power generation and plans to phase out support to oil and gas by 2022.[1]

Experience in Sweden has shown that, until this policy is adopted, it is imperative to put any further development and approval of fossil fuel-related projects that have not reached final financial closure on hold. Not doing so has the potential to lead to an increase of public financing for fossil fuel related projects, thereby risking the undermining of the policies' objective before it is in place.

Recommendations to close loopholes and strengthen the policy

A. Scope/application of the policy

I. **All forms of support through all UK-controlled channels must be covered by the policy:** The consultation document states that the policy will apply to *"any new official development assistance, investment, export credit and trade promotion activity overseas"*, and will *guide the UK's voting position at the boards of Multilateral Development Banks (MDBs) and be used to influence the investment policies of other development financial institutions (such as CDC Group PLC and the Private Infrastructure Development Group) that receive UK government funding.*

The policy should apply immediately and in its entirety to all forms of support through all UK aid-receiving institutions, including all forms of investment and support through financial intermediaries.

B. Policy content

I. **No gas power exemption:** the policy as it stands includes an exemption for support for gas power plants. Recent research indicates that expansion of gas demand - for example, by building new gas power plants - is incompatible with a 1.5C pathway. The reserves in currently-operating oil and gas fields alone, if burnt, will take the world beyond 1.5C of warming. Investments in new gas infrastructure often last for decades, locking countries into long term gas use and providing an incentive for future gas extraction. It should also be noted that while gas power plants do emit less carbon dioxide than coal- or oil-fired

[1] https://www.ekn.se/globalassets/vad-vi-gor/hallbarhet/ekn-hallbarhetspolicy_2020.pdf/

power stations, gas production and transportation is also associated with fugitive emissions of methane, a greenhouse gas that has a warming impact up to 30 times greater than CO2. A recent study noted that when these emissions are accounted for, gas can be considered to be almost as damaging to the climate as coal. For the UK Government to align its policy with its international climate goals it cannot permit a gas power exemption in this policy.

A targeted exemption when the project has been assessed to be strictly necessary for access to energy in least developed countries (e.g. when the destination country of export has no renewable energy options, which has to be proven by an independent alternative analysis) would be appropriate. In addition, a targeted exemption for decommissioning and support for gas (LPG) for clean cooking would be appropriate.

II. **Hydrogen is not a renewable energy but an energy carrier, hence** hydrogen produced using fossil fuels should in no case be supported.

III. **There should be limited exemptions for efficiency and improvement of standards only:** The proposed policy mentions exemptions for 'projects improving efficiency, health and safety and environmental standards (without substantially increasing the lifetime of assets)'. There is a need for defining 'substantial' increases in asset lifespans in the final policy. Given the above-mentioned scientific implications of any increase of fossil fuel production and consumption, extending the lifespan of, for example, an oil or gas refinery, is unacceptable. The term 'humanitarian response' must be elaborated, too, responding to research showing that investment in coal, oil and gas actually exacerbates poverty.

IV. **There must be a clear definition of fossil fuels, to include fossil fuel-related infrastructure and associated facilities.** The definition of 'fossil fuel projects' must include **all upstream, mid- and downstream operations**. This is because some infrastructure projects that aren't in of themselves fossil fuel projects, actually enable fossil fuel projects to go ahead. Without a broad definition of fossil fuel projects, the UK Government will fail to fully align its international support with the energy transition.

V. **Limit investments in fossil fuel-related industrial activity:** the policy should include clear limits on investments in support for industries using fossil fuels as and energy source or feedstock, **such as fertiliser, cement, steel and petrochemicals,** including prioritisation of investment in alternative technologies.

C. Transparency

The Government must identify and publish all existing forms of UK fossil fuel support. Prior to the current deadline for submissions to this consultation, the UK government should publish an assessment of all existing UK support for fossil fuels overseas by channel, type of finance, project and value, including but not limited to indirect and/or intermediary investments and support for associated projects. It should also identify which existing forms of UK support for fossil fuels would be excluded under the new policy, which would remain permissible under all circumstances, and which could continue to be supported subject to conditions. All ongoing fossil fuel support should be disclosed annually.

Conclusion

We welcome the UK governments announcement of this policy and strongly recommend a rapid implementation, including the above-mentioned recommendations necessary to strengthen the policy – emphasizing especially two required adaptations. One is the potentially catastrophic undermining of the policy caused by CDC Group's documents. The other is the need to put the development and approval of new projects on hold, so as to not undermine the policy before it is in place.

The UK's public finance agenda potentially has a significant impact on setting development pathways and encouraging private investment.

Given that the UK is co-hosting COP26, a rapid timeline of this policy will put the UK in a strong position to raise the ambition of other states ahead of COP26 and trigger the energy transition required to fulfil global climate obligations.

In sum, this policy can save lives, with less people affected by pollution and extreme weather, a faster transition to, and growth of, renewable energy and making the UK a global leader in the energy transition.

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