CSDS CENTRE FOR SUSTAINABLE DEVELOPMENT STUDIES

SDG Policy Brief #13

UNIVERSITY OF AMSTERDAM

Export Credits and Fossil Fuels: Promoting or hindering Development?

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SDG Goal 13: Why Export Credits for Fossil Fuel investments exacerbate climate change and harm development prospects

Key messages:

1. **Export Credits (ECs) supported by governments ostensibly aim to promote growth in developing countries while supporting domestic industry.**

2. **G20 ECs for fossil fuels amounted to €34 billion annually (2013-2015).** G20 governments continue to finance fossil fuel investments in, inter alia, developing countries to enhance access to affordable energy**.**

3. **However, G20 ECAs are not disclosing – let alone mitigating – their financed GHG emissions, particularly by ignoring Scope 3 emissions.** This is due to weak Fiscal Carbon Governance.

4. **Furthermore, such ECs will lock developing countries into a fossil-fuel trajectory**.

5. **ECs for fossil fuels transfer stranded assets and resources from North to South.** The risks associated with phasing out fossil fuels in G20 countries are shifted to low-income countries.

6. **ECs for fossil fuels may also increase debt incurred by developing countries:** This will exacerbate the trends of ECs creating debt-related challenges in the South.

7. **G20 governments must not use public money to promote fossil fuels as it is incoherent with the Paris Agreement.**

Introduction

Article 2.1(C) of the Paris Agreement on Climate Change (PA) calls for aligning financial flows with the broader objective of limiting average global temperature rise to 1.5-2°C. Export Credits (ECs) fall within this realm of financial flows. Based on an in-depth assessment of three case studies (Netherlands, UK, and Canada), this policy brief argues that G20 ECs fail to align with commitments to the PA. Given that ECs are government-backed, this misalignment is directly relevant for policymakers to understand and address.

Promoting Growth and Supporting Domestic Industries

ECAs are the private financial arm of sovereign states in global financial markets. They ostensibly aim to help both exporting and importing country. Exporters benefit from the insurance against commercial and political risks, while importers benefit from North-South capital flows and access to global markets.

G20 ECs for Fossil Fuels Annually Totalling €34B

Between 2013 - 2015, G20 ECAs financed over €34B worth of Fossil Fuel-related (FF) projects, annually, compared to €3B towards clean energy projects – shown in Figure 1. As examples, in 2018, 97% (€1.76B) of Atradius Dutch State Business's (ADSB) energy sector financing went towards the fossil industry. In 2017, an estimated 87% (€7.0B) of Export Development Canada's energy sector financing went towards the fossil sector; and in 2016, 97.5% (€950M) of UK Export Finance's energy sector financing was similarly allocated to FFs.

The Centre for Sustainable Development Studies (CSDS) was launched on 24 June 2015 as a new venture of the Amsterdam Institute for Social Science Research (AISSR) at the University of Amsterdam. This series of policy briefs is the outcome of the 'Critical Perspectives on Governance by Sustainable Development Goals' Conference organized in Amsterdam from 27-29 June 2016.

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To place the magnitude of these finances in context, Multilateral Development Banks (MDBs) allocated approximately €10B to FFs and a comparable €8B towards clean energy – see Figure 1.

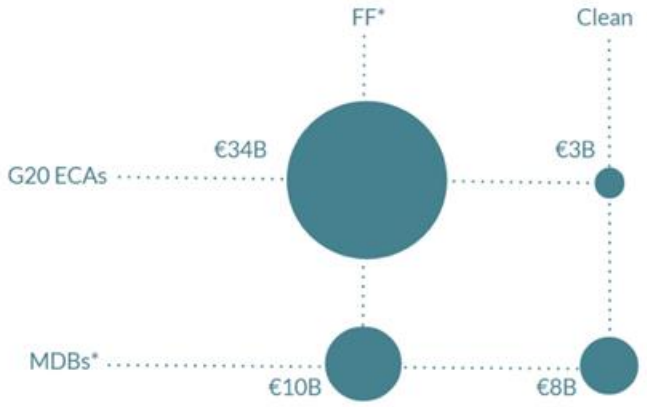

Figure 1: Annual G20 ECAs vs. MDBs Energy Sector Financing (2013-2015)

Financed Emissions: Disclosure and Mitigation

However, ECAs are not fully disclosing nor mitigating their financed emissions, predominantly by ignoring Scope 3 emissions. Scope 3 emissions account for all indirect emissions of FFs across the supply chain. In the case of ECAs, these account for **more than 70%** of total emissions. We find that out of 17 climate-related and emissions mitigation frameworks, **not a single framework** is both designed for ECAs *and* accounts for Scope 3 emissions. Consequently, ECAs are not implementing GHG emissions accounting or mitigation plans that align their portfolio with their government's commitments to the PA.

The primary cause for this is weak Fiscal Carbon Governance (FCG) – namely, *the set of rules, regulations, and procedures influencing capital flows in carbon-intensive industries.* The most significant barrier to strong FCG is low political will from both governments and rule-setting institutions like the OECD. ECAs vary in organizational structure, and official ECA guidance protocols are shared between OECD and national mandates; ECAs therefore can navigate ambiguous legal terrain which results into little to no guidance on PA alignment.

Carbon Lock-in for Developing Countries

Funnelling ECs to fossil industries and related infrastructure in the South will deepen the degree to which developing countries become locked into a FF based energy economy. This is problematic as these economies are already vulnerable and susceptible to climate change, putting them at even higher risks when the carbon bubble bursts.

Transferring Stranded Assets from North-South

By investing in the FF industry in developing countries, ECA's are creating new stranded assets (i.e. pipelines, plants, refineries and employment) in the global South – as these assets will eventually be left stranded in the near or midterm. Stranded assets pose multi-dimensional risks, including but not limited to: local pollution; health risks; technological and economic lock-in; and breached contracts and frozen litigation. By financing the fossil sector in the South, ECAs are de facto allocating the risks posed by the accompanying stranded assets to the poorest and most vulnerable countries.

Increased Debt Incurred by Developing Countries

Developing economies are expected to be the most negatively affected by the costs associated with climate change. However, over two-thirds of Low Income Country (LIC) debt towards the EU is tied to ECs, not development loans. Consequently, these developing economies risk aggravating their capacity to respond to climate change impacts by being on the receiving end of unaccountable and/or misunderstood FF related ECA financing.

Terminate Public Financing of Fossil Fuels

Allocating public funds via ECs to fossil sectors in LICs and MICs is both incoherent with the Paris Agreement on Climate Change and poses significantly high risks for these countries. G20 governments must therefore strengthen FCG and monitor ECAs to ensure capital flows align with the PA and are not destined to the FF industry.

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