Global Energy Monitor

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US$41 billion since Paris Agreement

TURNING OFF THE TAPS FOR EU AND US PUBLIC FINANCING OF FOSSIL FUELS

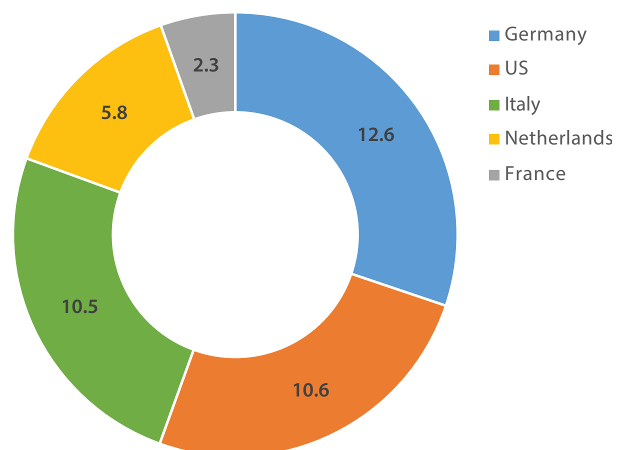
Summary

As they come together at a summit in Brussels on June 15, the EU and the US have the opportunity to commit to a concrete timetable for phasing out their international public finance support for fossil energy via export credit agencies and development finance institutions. In doing so, they can turn off the taps which have disbursed over US$41 billion in financing for the coal, oil, and gas sectors since the adoption of the Paris Agreement at the end of 2015.

Specific phase-out commitments for such fossil fuel financing can also establish benchmarks for other countries in the lead-up to the UN Climate Summit (COP26) in November this year. Further, defined and time-bound commitments from the EU and the US can provide impetus and guidance for multilateral development banks in which they have significant shareholdings—such as the European Bank for Reconstruction and Development—to decarbonize their future investments by ending their support for oil and gas outright in upcoming investment policy reviews. These institutions, with EU and US direction and backing, can follow the example of the European Investment Bank and its far-sighted, financially prudent commitment to end support for all fossil fuel sectors by the end of 2021.

EU and US international fossil fuel financing

Since the adoption of the Paris Agreement in December 2015, publicly available information and data shows that the financing for overseas fossil fuel-related investments from the state-owned financial institutions of the US and four prominent EU member states amounted to at least US$41.7 billion.[1] This is a conservative estimate which does not include fossil fuel financing from other EU member state public financing agencies, and does not take account of EU and US contributions to fossil fuel financing via multilateral development banks where there is pooled funding from many shareholding countries.



Fossil fuel financing—Positive shifts under way internationally

The majority of global financing of carbon-intensive fossil fuel-based energy is derived from private sector banks and investors—at least US$3.8 trillion has flowed to the fossil fuel sector from the world's 60 biggest banks since the Paris Agreement. Sovereign, state-owned financial institutions such as export credit agencies (ECAs) also play a crucial role; when they back a fossil fuel project, most often private sector financial institutions do not hesitate to deploy their capital resources behind such a project, often in droves. (See below the case of the US$20 billion Mozambique LNG project.) In spite of attendant climate and stranded asset risks, the presence of state-backed financial institutions in fossil fuel deals provides a crucial catalyst for private sector involvement.

The longstanding recognition that public funding support for fossil fuels from the world's largest states not only matters but—in a carbon-constrained world—needs to be rapidly ended in a coordinated manner saw a breakthrough moment this year, at least with respect to coal. In May, the G7 Environment Ministers committed "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." The same communiqué, while offering suggestions about a phaseout for fossil fuel support across the board, was not able to specify a timeline for ending support to the oil and gas sectors. It contains caveats which describe any such phaseout—when finally agreed—as not being applicable to all oil and gas projects, and also as being "at the discretion of each country."

The timelines for ending G7 public finance support for oil and gas therefore remain up in the air, and potential loopholes for continued financial support are still very much in play. This G7 diplomatic arrangement came just days after the publication of the International Energy Agency (IEA) report *Net Zero by 2050*. The report presents a scenario whereby a 50% chance of staying below 1.5°C of global warming is still achievable. Under this scenario, according to the report, "there is no need for investment in new fossil fuel supply."

Momentum is building to align investment policy with the net zero pathway. In January this year EU foreign ministers agreed to promote a global phase out of fossil fuels by discouraging "all further investments into fossil fuel based energy infrastructure projects in third countries, unless they are fully consistent with an ambitious, clearly defined pathway towards climate neutrality in line with the long-term objectives of the Paris Agreement and best available science." In early June, the Dutch development bank FMO committed to phase out its direct investments in all fossil fuels over the next five years; Atradius, the Dutch ECA, continues to be open to fossil fuel investments.

The partial move away from fossil funding by the Dutch government follows on from the December 2020 commitment by the UK government to end its support (£21 billion through trade promotion and export finance since 2016) for the fossil fuel sector overseas. France has thus far committed only to phase out export finance for gas by 2035, but in April it joined with Denmark, Germany, Spain, Sweden and the UK year to form the Export Finance for Future (E3F) coalition. The E3F coalition aims to better integrate climate objectives into public export finance policy. French Finance Minister Bruno Le Maire has said he hopes that the US will join the E3F initiative.

A review of US export finance is under way following President Biden's Executive Order on Tackling the Climate Crisis at Home and Abroad, which requires the Export-Import Bank of the United States (EXIM) to "promote ending international financing of carbon-intensive fossil fuel-based energy." The U.S. International Climate Finance Plan further calls for the US government 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." EXIM has been encouraged by 432 groups from 53 countries to implement the Biden executive order and immediately end all support for fossil fuels.

Mozambique LNG—A failing template

In July 2020, Total announced it had secured US$14.9 billion in financing for its US$20 billion Mozambique LNG project from a group of eight ECAs and the African Development Bank. The psublic financial backing includes US$4.7 billion from the US EXIM bank—EXIM's largest loan in years—as well as US$950 million from Italy's SACE and US$640 million from the Dutch ECA Atradius. Nineteen commercial banks from around the world are also providing loans. The international support raised for the Mozambique LNG project is roughly 50 times the US$245 million in international financing dedicated to renewables support programs in Mozambique.

The financing proceeded despite concerns being raised about risks to the project due to the escalating conflict in Cabo Delgado, and the incompatibility of the project with a Paris Agreement–aligned pathway. The IEA warned last year that due to lower gas demand "the prospects for new export-oriented projects, such as those in Mozambique, have been weakened." Following an attack on the neighbouring town of Palma in March 2021, Total evacuated the project site and declared force majeure. It remains unclear when—or if—work will resume.

Setting new standards—Joint role for the EU and US

There is a palpable disconnect between the advancing announcements from the EU and the US on winding down their overseas public finance support for all fossil fuels and a lack of firm, time-bound policy commitments to ensure—as the UK government has done—that such investments cease quickly.

Policy commitments from the EU and the US are urgent, given the various large, controversial fossil fuel projects which are currently in line for financing. These include:

- Russia's US$21 billion Arctic LNG 2 terminal project, currently under construction on the Gydan Peninsula in Western Siberia. The French, German and Italian governments were asked by members of the European Parliament in May this year to refuse to support the project, which their respective ECAs are considering to finance, and instead "set a new standard by ending all export finance support to fossil fuels before COP26."

- Total's US$3.5 billion East Africa Crude Oil Pipeline in Uganda and Tanzania which SACE, Italy's ECA, is known to be considering for funding support. In addition to the climate impacts from oil transported (216,000 barrels of oil per day), the proposed 1,445-kilometer pipeline is expected to cause displacement of communities and could have significant negative impacts on incomes and livelihoods.

A further pressing development, with direct relevance for US overseas fossil fuel finance, is the Three Seas Initiative (3SI), a regional collaboration composed of the 12 eastern member states of the EU which touch the Adriatic, Baltic, and Black Seas.

In October 2020, the Trump administration pledged to commit up to US$1 billion in co-financing for 3SI-backed infrastructure projects, with US$300 million specifically earmarked to come from the US Development Finance Corporation (DFC). Finalization of the DFC funding commitment has not yet materialized under the Biden administration. Concerns remain that this US overseas funding could support greenhouse gas-intensive projects and potentially undermine EU decarbonization goals, as 3SI energy projects in line for financing are heavily biased in favor of unnecessary gas infrastructure over central and eastern Europe's under-funded renewable energy sector. Seventeen gas projects currently feature among the 3SI projects in line for financing, compared to six renewable energy projects. The gas projects include two proposed LNG import terminals in Estonia and Latvia, even though the need for them is questionable given falling

gas demand in the Baltic region and the continuing underutilization of the Klaipeda LNG import terminal in Lithuania.

The ECAs and development finance institutions (DFIs) of the EU and the US can make short-term positive impacts in the global effort to combat climate change by declining to finance any of the carbon-intensive projects detailed above. The definitive long-term approach—to follow quickly—at these ECAs and DFIs would be to enact policy commitments which call an end to all fossil fuel funding support no later than 2025. This is how the European Investment Bank (EIB) arrived at its decision in November 2019 to stop supporting fossil fuel projects by the end of 2021: "It's a question of economic rationality, not to embrace something that you know you'll have to write off in 15 or 20 years, but you have on the balance sheet for 40 years." The taxpayer-based ECAs and DFIs of the EU and the US should share the EIB's negative outlook towards long-term stranded fossil fuel assets.

Opportunities at the multilateral development banks

The EIB's 'fossil free' example can be taken up in quick order by other multilateral development banks at the bidding of the EU and the US. Seven out of the nine major multilateral development banks have EU countries and the US as shareholders. Of these, the European Bank for Reconstruction and Development, the Asian Development Bank, and the African Development Bank are currently reviewing or updating their climate and energy lending policies, while the World Bank is developing a Climate Change Action Plan.

These institutions have already cut off or proposed an end to their financing of coal sector investments. Given the growing EU-US sentiment and the implications of the IEA's Net Zero Emissions scenario, the time is now ripe for them to deliver a timetabled end to fossil fuel financing across the board.

About Global Energy Monitor

Global Energy Monitor is a nonprofit research organization developing information on fossil fuel projects worldwide. GEM data is used by the International Energy Agency (IEA), OECD Environment Directorate, UN Environment Programme, U.S. Treasury Department, World Bank, Economist Intelligence Unit, and Bloomberg New Energy Finance. GEM data is also licensed by Bloomberg LP and UBS Evidence Lab.

Endnote:

1. The financing comprises loans and export credit guarantees from: US Export-Import Bank, US International Development Finance Corporation and its predecessor, the Overseas Private Investment Corporation, and the US Trade and Development Agency (US); Euler Hermes, German Investment and Development Corporation, KfW and KfW-IPEX Bank (Germany); Bpifrance (France); Servizi Assicurativi del Commercio Estero (Italy); and Atradius (Netherlands).Data has been sourced from Oil Change International's "Shift the Subsidies Database," accessed in June 2021, and the Both Ends report "The fossil elephant in the room" which details fossil fuel financing from the Dutch ECA Atradius.