PARIS ALIGNMENT OF EXPORT CREDIT AGENCIES

Case study #1: Germany (Euler Hermes)

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Key Messages

- Euler Hermes, the officially mandated German Export Credit Agency (ECA), was assessed with regards to its alignment with the Paris Agreement across five dimensions using the methodology developed by Perspectives Climate Research.[1] Overall, **the German ECA was rated 'Unaligned' towards alignment with the Paris Agreement (assessment score 0.32/3.00).**

- Euler Hermes was rated best in the 'Engagement' dimension, reflecting the broader social and environmental responsibility engagements of the financial institution, and scored the least in the dimension reflecting overall climate impact and emission reduction targets of its activities.

- Total **support for fossil fuel projects was EUR 1.31 billion in 2019** (only considering single transaction covers). Most of the projects supported were related to oil and gas value chains. In the same year and also considering single transaction covers only, total **support for low carbon or renewable energy projects was EUR 1.07 billion** - most of which supported wind power.

- While German government policy excludes to federally cover constructing new or expanding existing coal-fired power plants, other parts of the coal-related value chain are not excluded, such as support for mining equipment. Moreover, the ECA is no longer permitted to support new applications including the routine venting and flaring of associated gas during oil production. Gas-related value chains remain an important business field for Germany´s officially support export finance and there are no exclusions in place. Overall, **the ongoing support to fossil fuel value chains contributes to the carbon lock-in and is not in line with the IEA Net Zero or IPCC P1 pathways.**

- An exclusion policy in line with the Paris Agreement requires to cover all fossil fuels and related value chains. Furthermore, Germany needs to clearly define climate finance in officially supported export finance and enhance the transparency on the climate impact of all activities.

- The prospective German government may well **enhance its climate ambition formulated as part of the "Climate strategy of the Federal Government for Export Credit Guarantees",** which was announced to be published before the end of 2021

- As an important stakeholder in supranational fora and initiatives, such as the "Export Finance for Future (E3F)" initiative or the OECD Export Credits Group, **Germany can significantly ramp up the ambition** – both in terms of scale and scope – of policy steps required for the necessary transformation of the export finance system to align it with the Paris Agreement.

Assessment dimension	Weight	Description	Score
1. Transparency	0.2	Financial and non-financial disclosures	0.25/3.00
2. Mitigation I	0.4	Ambition of fossil fuel exclusion or restriction policies	0.33/3.00
3. Mitigation II	0.2	Climate impact of and emission reduction targets for all activities	0.00/3.00
4. Climate finance	0.1	Positive contribution to the global climate transition	0.40/3.00
5. Engagement	0.1	Outreach and 'pro-activeness' of the ECA and its governments	1.00/3.00
Assessment outcome:		**Unaligned**	0.32/3.00

[1] The assessment considers German government policies for Euler Hermes as well as all operations and communications by the mandated ECA itself.

1. Introduction

Limiting temperature increase to 1.5°C above pre-industrial levels requires massively re-directing financial flows away from carbon-intensive towards low-carbon activities. However, despite commitments made under Article 2.1(c) of the Paris Agreement – in which Parties agreed to making "*finance flows consistent with a pathway towards low greenhouse gas emissions* […]" (UNFCCC 2015) – many countries still provide significant financial support to fossil fuel value chains, among others, through their export credit agencies (ECAs). This contributes to a global lock-in of carbon intensive infrastructures and hampers leap-frogging of carbon-intensive development in countries in the global South. DeAngelis and Tucker (2021) estimated that from 2018 to 2020, ECAs of G20 countries provided an annual average of USD 40.1 billion to support fossil fuel projects, while renewable energy was supported with only USD 3.5 billion annually. Since 2019, of all public finance institutions (PFIs), G20 ECAs make up the single largest group providing financial support for fossil fuels, which is even higher than (bilateral) public development banks (Oil Change International 2021). An ECA is often decisive in whether a deal can be realised, e.g., by providing risk insurance or improving lending conditions of banks which finance export transactions. Several recent studies underlined the lack of dedicated climate policies and transparency of ECAs (e.g., Shishlov et al. 2020; Wenidoppler et al. 2017) as well as potential litigation if no action is undertaken (Cook and Viñuales 2021).

Text box 1: What are Export Credit Agencies?

ECAs are either private companies that act on behalf of a government or public entities themselves (OECD 2021a). Their *raison d´être* is the promotion of the trade and national export businesses competing for riskier markets abroad (Shishlov et al. 2020; OECD 2021a). ECAs provide, for example, guarantees to hedge against risks of an exporter or lender not being repaid, e.g., due to political instability, expropriation, or unexpected currency fluctuations. They can also act as direct lenders with short-, medium- or long-term loans and may provide earmarked project finance or even equity instruments. In return, they receive risk premiums or interest payments. In the case of repayment loss, ECAs compensate exporters or lenders directly whilst being in the position to draw up a debt settlement arrangement with the Paris Club[2]. Opting for a state-backed transaction can significantly de-risk deals for exporters and crowd in public or private co-finance, especially for large-scale, long-term or particularly risky projects. Many ECAs require exporters or banks to demonstrate that private export credit insurance would not cover the deal. This situation is reflected in the fact that among Berne Union members – the largest association for the export credit and investment insurance industry worldwide – official ECAs predominantly provide long-term commitments and political risk insurance. This represents about one third of total commitments outstanding which were estimated in 2020 at USD 2.77 trillion (Berne Union 2021). About two thirds are short-term commitments which are predominantly insured by private insurers (*ibid*.). However, the fact that ECAs typically support larger and riskier projects that would not have been insured otherwise underlines the rationale of looking into their potentially adverse effects on climate and the environment.

Some governments have started making explicit climate commitments for their ECAs – notably foreign ministers from the EU, the UK, and the US. However, many ECAs still lack ambition in terms of speed, scale, and scope of the reforms – for example, most of them are not in line with the latest Net Zero scenario developed by the International Energy Agency (IEA) that calls for immediate end of new fossil fuel supply developments, including natural gas (IEA 2021). Moreover, no systematic benchmarks or approaches exist to comparatively assess and guide ECAs towards Paris alignment. To help bridge these gaps and inform ongoing reform processes, Perspectives Climate Research developed a dedicated methodology to assess the alignment of ECAs with the Paris Agreement (Shishlov et. al 2021). This methodology was road-tested on officially supported export finance in Germany and the results are presented in this case study.

[1] The Paris Club is 'an informal group of official creditors' which collects public debt owed by governments to creditor countries. Debt owed by private entities which is guarantees by the public sector (e.g., through ECAs) is comprised by the definition of public debt (Club de Paris 2021).

2. Officially supported export finance in Germany

Germany has the largest national economy in Europe and the fourth largest by nominal GDP globally (World Bank 2021). In 2020, the European country maintained its position as the world's third largest export country, only behind China and the USA (Statista 2021) and accounted for 7.1% of global trade (Federal Ministry for Economic Affairs and Energy 2020a). Moreover, Germany is a key provider of international public finance through various channels, and next to bi- and multilateral channels, this encompasses official support for exports notably through the mandated private entities Euler Hermes and PricewaterhouseCoopers (PwC). Both entities form a consortium to which the federal government has entrusted the management of officially supported export finance. Thus, the two companies are authorized to make and receive all declarations pertaining to export credit guarantees and investment guarantees on behalf of the Federal Government (Federal Ministry for Economic Affairs and Energy 2021a). ECA covers can enable export transactions in the first place through mitigating risk or enhancing financing conditions (Shishlov et al. 2021). The vast majority of cover is provided by Euler Hermes and the label 'Hermes cover' is an established quality mark among exporters operating in riskier markets abroad. This notably includes short-, medium-, and long-term export credit guarantees in multiple arrangements (Federal Ministry for Economic Affairs and Energy 2020d; OECD 2021a). According to official government policy, Hermes covers can only be utilized where private industry would not assume the risk of a transaction anymore or does not offer appropriate insurance solutions. This occurs frequently in riskier foreign markets, and this form of official financial support makes Euler Hermes an 'insurer of last resort'. Consequently, the Federal Government concentrates on export credit guarantees for emerging economies and developing countries (Shishlov et al. 2020). As a general rule, the Hermes cover is available to all German export companies irrespective of the company's size or line of business (Federal Ministry for Economic Affairs and Energy 2021b). Moreover, as a general rule, only projects where at least 49% of the value added occurs within Germany are eligible for federal cover. As is described further down below, there are important exceptions, e.g., under the new 'special renewable energy initiative'. Table 1 provides an overview of Euler Hermes´ organisation and activities.

The Inter-ministerial Committee (IMC) for Export Credit Guarantees is the central decision-making body for the underwriting of export credit guarantees by the Federal Government. It also determines the cover policy for individual countries. The IMC decides by consensus on the cover policy and the acceptance of an application for export credit guarantees for export transactions. In addition to the Federal Ministry for Economic Affairs and Energy, which heads the committee, member agencies include the Federal Ministry of Finance (BMF), the Federal Foreign Office (AA) and the Federal Ministry for Economic Cooperation and Development (BMZ).

Next to Hermes covers, the German government also supports foreign direct investment through investment guarantees. These investment guarantees protect eligible German direct investments abroad by protecting them against political risks (Investitionsgarantien 2021). This type of officially supported export finance was mandated to PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC). However, the volume of investment guarantees covers is considerably smaller than those of export credit guarantees and investment guarantees only covered some EUR 0.9 billion in 2020, while export credit guarantees amounted to EUR 16.7 billion .This is why this study focuses on the export credit guarantees provided through the product portfolio of Euler Hermes (Investitionsgarantien 2019; Investitionsgarantien 2020).

Table 1: Overview of the German ECA Euler Hermes

Key facts Euler Hermes	
Type of ECA	Mandated private, pure cover
Main sectors*	Transport/infrastructure (42.8%), Chemical industry (14.9%), Energy industry (12.8%), Paper, timber, leather, and textile industry (9.4%), Manufacturing industry (9.3%)
Geographic activity concentration*	Short-term policies: Russia, China, Ethiopia, Israel, Algeria Longer-term polices: United States, Turkey, Dubai, UAE, Saudi Arabia, UK Whole turnover: Russia, Turkey, USA, China and Brazil
Commitments outstanding[3,*]	EUR 125.3 billion
New commitments[4,*]	EUR 16.7 billion
Main instruments of financial support	Short-, medium- and long-term export credit guarantees, whole turnover and revolving supplier credit cover
Category A and B projects[5,*] (Number | volume)	Category A: 6 projects, EUR 1.7 billion Category B: 25 projects, EUR 1.3 billion

Note: (*) = Data from 2020. Source: authors based on Federal Ministry for Economic Affairs and Energy 2021b.

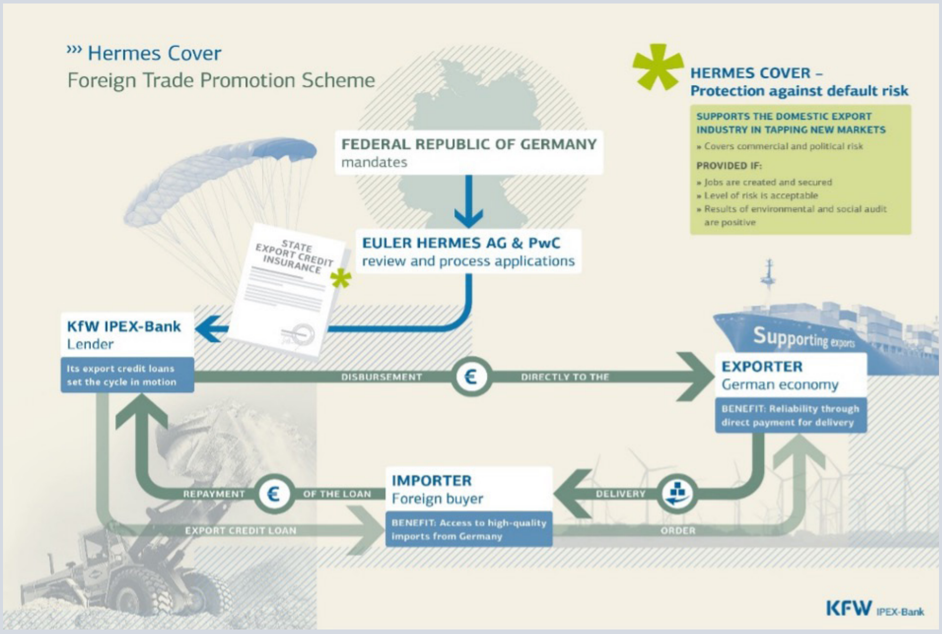
[3] Commitments outstanding is a 'stock parameter' of the total amounts under cover of all current policies at a given cut-off date (Berne Union 2021; Shishlov et al. 2021). This parameter is reported by Federal Ministry for Economic Affairs and Energy (2021b) as "the total volume of export credit guarantees issued (net of interest) which are still exposed to risks.".

[4] New commitments are a 'flow parameter' which refers to the total volume of new insurances, guarantees, loans or other ECA instruments at a given cut-off date (Berne Union 2021; Shishlov et al. 2021).

[5] Category A projects are referred to those "which potentially have significant adverse ESHR impacts which are diverse, irreversible and/or unprecedented or which may be located in or near sensitive areas and for which the buyer must take special mitigation measures to minimise the impact" and Category B projects those "projects with site-specific or easily reversible potential ESHR impact" (Federal Ministry for Economic Affairs and Energy 2021b).

Text Box 2: Relationship between Euler Hermes and KfW-IPEX

Euler Hermes and KfW-IPEX are institutions that have related scopes of work but differ in their roles. Euler Hermes is the officially mandated ECA for the Federal Republic of Germany. KfW-IPEX is a public investment and development bank focusing on the provision of international export or project financing. Fully owned by the German public development bank Kreditanstalt für Wiederaufbau (KfW), KfW-IPEX is one of several state-supported institutions comprising Germany´s international public finance portfolio. Euler Hermes and KfW-IPEX bank often collaborate, for instance, when KfW-IPEX provides export-related loans or credit lines and Euler Hermes provides Hermes cover for the same project (KfW-IPEX 2021). Similar arrangements occur in collaboration with the German Ausfuhrkredit Aktiengesellschaft (AKA) bank, in which KfW is shareholder since 2011, as well as with the Deutsche Investitions- und Entwicklungsgesellschaft (DEG), a full subsidiary of KfW (Federal Ministry for Economic Affairs and Energy 2021a). In summary, the German export and development finance system is relatively more fragmented than that of other countries, such as France or the United Kingdom. The following illustration provides an overview of how officially supported export finance transactions can work in Germany:



Source: KFW IPEX (2021)

3. Climate-related policies in officially supported German export finance

Germany has been actively engaged in domestic and international climate policy since the late 1980s. It was one of the first countries to submit the long-term low GHG emission development strategy (LEDS) to the United Nations (UN), including the long-term goal of achieving GHG neutrality by 2050 as well as the mid-term target of 55% emissions reductions by 2030 compared to 1990 levels (Federal Ministry for the Environment, Nature Conservation and Nuclear Safety 2017). To achieve these targets, the government passed a Climate Protection Act in 2019 which foresees to phase out coal-generated power by 2038 (Federal Ministry for Economic Affairs and Energy 2020b). The final coal exit could potentially occur substantially earlier under the new government and current market projections. Moreover, Germany wants to establish itself as a leading hub for sustainable finance and already appointed an Advisory Council for Sustainable Finance (e.g., Reitzenstein and Ostrower 2020). As one of the G20 countries with significant international influence, Germany could be a frontrunner in transforming the export finance system by aligning its ECA's activities with the objectives of the Paris Agreement. Nevertheless, the strongly positive German trade balance relies heavily on its export sector, among which, capital goods, services and technology related to fossil fuel value chains play an important role. A study by Trout et al. (2017) highlighted that Germany's internationally active public finance institutions, including Euler Hermes, contributed between 2014 and 2016 at least USD 12.6 billion to fossil fuel expansion and production abroad, with the great bulk of the money helping to finance oil and gas developments. During the same time, these public finance institutions only contributed USD 8.05 billion to clean energy projects. The contradiction between ambitious domestic climate action on the one hand and continued support for investments in fossil fuel infrastructure abroad on the other, makes Germany an interesting case study. Text Box 2 provides an overview of Euler Hermes´ climate-related policies and commitments.

Text Box 3: Euler Hermes's climate-related commitments and practices

- Adherence to the OECD Arrangement on Officially Supported Export Credits (hard law in the EU): since 2021 the OECD Arrangement no longer permits to support for unabated coal-fired power plants (OECD 2020; OECD 2021c).
- Environmental, social and human rights (ESHR) assessment of all transactions irrespective of the credit period and the contract value involved (this goes beyond the requirements of the OECD). The ESHR assessment is based on several international standards. For projects classified as Category A – i.e., projects that could have significant adverse ESHR impacts – due diligence requirements are higher (Federal Ministry for Economic Affairs and Energy 2018).
- In 2020, special conditions for renewable energy projects came into force ('special renewable energy initiative'): exports in the renewable energy sector with foreign supplies can be covered with up to 70% federal cover, as opposed to the standard 49%. At the same time, future guarantees for direct deliveries and services for coal-fired power plants and certain oil projects were excluded (Federal Ministry for Economic Affairs and Energy 2020c).
- Part of international coalition 'Export Finance for Future' (E3F), which adheres to a set of principles and committed themselves above all to end the export financing for coal for power generation (including mining and transport), albeit without a concrete timeline (Ministry of Economy of France 2021).

4. Assessment of Euler Hermes´ alignment with the Paris Agreement

We assess the 'Paris alignment' of Euler Hermes based on a methodology specifically developed to evaluate the alignment of ECAs with the Paris Agreement (Shishlov et al. 2021). This methodology conceptually and practically builds on existing approaches to 'Paris alignment' developed for other financial institutions, such as multilateral development banks (MDBs). Most notably, this includes the structure and rationale of the Public Development Banks' Climate Tracker Matrix by environmental think tank E3G, which, in turn, is based on the six building blocks of the Paris Alignment Working Group (PAWG) by major MDBs. The assessment of ECAs differs notably from these two approaches since it transparently underpins each assessment dimension (hereafter referred to as 'dimensions') with specific key questions (3-5 questions per dimension, in total 18 questions) as well as specific benchmarks (four benchmarks per question, in total 72 benchmarks). The four benchmarks correspond to four labels of Paris alignment (Figure 1).

Figure 1: Labels of Paris alignment and corresponding score ranges.

Unaligned	0.00 - 0.50
Some Progress	0.50 - 1.50
Paris aligned	1.51 - 2.50
Transformational	2.51 - 3.00

Moreover, the methodology differs from other approaches since it applies a weighting approach to the assessment dimensions. This permits to emphasize some dimensions over others which is based on the rationale that some dimensions are more immanently important to reaching the Paris climate goals (e.g., mitigation vs disclosure). The selection of weights reflects a careful consideration of priorities and is based on the expertise of more than a dozen experts from research and civil society organizations. The final scoring is carried out by evidence-based expert judgement.

Euler Hermes received an overall assessment score of 0.32 out of 3.00 and therefore rated as 'Unaligned'. Further details about the methodology and its application can be accessed in Shishlov et al (2021). In the following, an introduction to the assessment in each dimension as well as a justification for the evaluation of Euler Hermes are presented.

4.1. Dimension 1: Financial and non-financial disclosure and transparency

The first dimension is underpinned by four key questions regarding the transparency of financial and non-financial disclosure of the ECA. This dimension is a crucial prerequisite to evaluate the Paris alignment of ECAs in subsequent dimensions and to hold governments accountable for supporting businesses abroad against their commitments under international treaties, such as the Paris Agreement. Furthermore, it is especially important since ECAs were found to be particularly lacking transparency in the past (Shishlov et al. 2020). The methodology weighs this dimension with a total of 20% recognizing that disclosure cannot be an end in and of itself but rather represents a prerequisite for the necessary climate action to be taken.

Euler Hermes was rated as 'Unaligned' with a dimension sub-score of 0.25/3.00. Besides Q1.2 (targeting in how far the share of fossil fuel finance over total portfolio can be assessed), Euler Hermes was rated 'Unaligned' in all remaining questions.

Q Nr.	Dimension 1 – key questions	Rating
1.1	To what extent can the GHG intensity of all activities supported by the ECA be assessed based on publicly available data? (Non-financial disclosure)	Unaligned
1.2	In how far can the share of fossil fuel finance over total portfolio be assessed? (Financial disclosure)	Some progress
1.3	In how far can the share of climate finance over total portfolio be assessed? (Financial disclosure)	Unaligned
1.4	To what extent does the institution adhere to the Recommendations and Supporting Recommended Disclosures of the Task Force on Climate-related Disclosure (TCFD)?	Unaligned

Q1.1: To what extent can the GHG intensity of all activities supported by the ECA be assessed based on publicly available data? (Non-financial disclosure)

Euler Hermes has not established or announced to conduct comprehensive GHG accounting system at portfolio or institutional level. This is why it was rated as 'Unaligned' for Q1.1. While one can assess the GHG emissions of the Category A projects (Federal Ministry for Economic Affairs and Energy 2021c) these only cover a marginal fraction of the total portfolio and is mandatory as per the OECD 'Common Approaches' (Federal Ministry for Economic Affairs and Energy 2018; OECD 2021b). However, this may change in the future; according to a press release in May 2020, there was a pilot phase until end of 2020 "to evaluate which international benchmarks are most suitable for assessing the climate impacts of federally covered transactions". The results of the pilot phase are planned to be incorporated into the Climate strategy of the Federal Government for export credit guarantees, which is supposed to be released in autumn 2021 (Federal Ministry for Economic Affairs and Energy 2020e). If Euler Hermes were to announce and operate comprehensive GHG accounting, this would increase the rating at hand.

One example for GHG accounting at portfolio level comes from the French ECA Bpifrance which attempted to attribute GHG emissions to six asset classes of its portfolio (Gondjian and Merle 2020; Bpifrance 2020)[7]. In fact, the Partnership for Carbon Accounting Financials (PCAF) now collaborates with the UN-convened Net Zero Insurance Alliance[8] with the objective of developing a standard to measure insured emissions, which highlights the feasibility of introducing GHG accounting in ECAs (PCAF 2021).

We recommend that Euler Hermes takes steps to implement GHG accounting (scope 1 - 3) as soon as possible. Moreover, an exchange with pioneers such as the French ECA Bpifrance or PCAF is vital for this. Knowledge of and transparency about the most relevant emission sources within the portfolio can enhance taking the appropriate decisions for aligning

Q1.2: In how far can the share of fossil fuel finance over total portfolio be assessed? (Financial disclosure)

Euler Hermes discloses the development of single transaction covers in the energy sector by energy source and region. Data is available for 2011 until 2019 (Federal Ministry for Economic Affairs and Energy 2020f). For this reason, the ECA was rated with 'Some progress' for Q1.2, as opposed to the other questions constituting this dimension. It is important to note that the single transaction policies represent about 70% of the newly covered exports in 2019 (60% in 2020). At the same time, no information is available on the share of energy sector-related covers for whole turnover and/or revolving supplier credit covers. Moreover, Euler Hermes publishes some basic data (exporter's name, buyer country, order value according to size categories, credit periods as well as the result of the assessment of environmental, social and human rights issue) of all projects which have an order value higher than EUR 15 million irrespective of their environmental relevance (Federal Ministry for Economic Affairs and Energy 2020g). However, the publication is subject to the consent of the exporter which means that for some of the project information only parts are disclosed. Furthermore, under German law, information on all export transactions covered under federal guarantees can be requested, but access to the requested information can be restricted for certain reasons (Federal Ministry for Economic Affairs and Energy 2020h). Meaningful disclosure in this regard may for instance occur only in response to requests by the German parliament, e.g., see the example of the request of the Green Party to disclose ECA-related information as part of Germany´s overarching international climate policy (Deutscher Bundestag (2021): Antwort der Bundesregierung auf Kleine Anfrage zur Klima-Außenpolitik der Bundesregierung [Government response to Parliamentary Inquiry into the German Foreign Climate Policy], Drucksache 19/28639, Berlin). However, such disclosure is irregular and many aspects, e.g., regarding the methodological procedure to count fossil fuel-related finance, remain unclear. Indeed, what is missing in the German reporting modalities is a clear definition of fossil fuel 'value chains' as part of its energy sector portfolio. Only based on such a definition, meaningful insights into the support for fossil fuel-related transactions in the energy sector can be derived.

The Dutch ECA Atradius DSB developed a methodology to measure the share of fossil fuels (including their value chains) over the total portfolio and disclosed this information in 2020 (Government of the Netherlands 2021) demonstrating the feasibility of such an approach. It must be noted that the level of transparency for the Dutch example comes with some caveats (see Censkowsky et al. 2021 for details). However, the Netherlands is a good example of how to provide first insights into the portfolio of a pure cover ECA and currently represents a best practice among ECAs.

We recommend to specifically disclose financial information for total commitments outstanding and new commitments (i.e., both the project stock and flow) of all activities supported in the energy sector and related value chains. More specifically, we suggest defining the energy sector based on a value chain approach distinguishing into (i) fossil fuel-

[7] For a general approach to the attribution of emissions to finance actors see Partnership for Carbon Accounting Financials (PCAF 2020 and 2021).

[8] For more information see: https://www.unepfi.org/net-zero-insurance/

related value chains; (ii) clean (or more narrowly, renewable) energy-related value chains; and (iii) other primary energy sources (e.g., nuclear). To do so, we recommend following the example of the Netherlands while addressing the caveats of their methodology discussed by Censkowsky et al. (2021).

Q1.3: In how far can the share of climate finance over total portfolio be assessed? (Financial disclosure)

Regarding the reporting on climate finance (Q1.3), Euler Hermes was rated as 'Unaligned'. This assessment is given since the ECA does not present a clear definition of climate finance. Euler Hermes reports on the renewable energy sector by source and by region and mentions in the Annual Report on Export Finance 2020 "other businesses which serve climate projection" but does not elaborate further on it (Federal Ministry for Economic Affairs and Energy 2021b). A clear definition on 'climate-friendly exports', as Euler Hermes calls it, as well as financial disclosure beyond renewable energy-related exports is needed for a better scoring under this question.

Building on CICERO's 'shades of green' approach and broadly following MDBs list-based approach to climate finance, the Dutch ECA Atradius DSB, for instance, developed a list of 'green' activities based on which transactions can be labelled with different shades of green, depending on their contribution to climate mitigation, adaptation or a so-called 'other footprint reduction' (Atradius DSB 2020). While the Dutch approach has its own shortcomings (see a discussion in Censkowsky et al. 2021), it can still be considered a valuable example for a comprehensive and transparent approach of defining 'green' activities within an ECA portfolio that Germany can build upon.

Last but not least, officially supported export finance can be counted towards the USD 100 billion climate finance goal. Together with climate finance from bilateral and multilateral sources, some developed countries report export credit-related climate finance to the OECD. However, with 3,3% of climate finance provided in 2019, the export credit-related share remains minuscule (OECD 2021d). The extent to which officially supported German export finance counts to this end is not known, and while the share of export credit climate finance remains minuscule, we recommend to disclose the German stance on this issue, and potentially, report on their reported share from export credits for Euler Hermes supported activities separately and increase climate related disclosure for the total portfolio.

Q1.4: To what extent does the institution adhere to the Recommendations and Supporting Recommended Disclosures of the Task Force on Climate-related Disclosure (TCFD)?

No evidence or plans were found showing that Euler Hermes adheres to or plans to adhere to the recommendations provided by the Task Force on Climate-related Financial Disclosures (TCFD). This is the reason why Q1.4 was rated as 'Unaligned'.

The frontrunners in this respect are the United Kingdom´s UKEF and the Swedish ECAs SEK and EKN which committed to report according to the TCFD as of 2022 at the latest (see UKEF 2021 and EKN 2020, respectively). We recommend following these best practices regarding the TCFD and also consider reporting according to the Task Force on Nature-related Financial Disclosure (TNFD)[9] once these recommendations are launched.

[9] For more information on the TNFD see: https://tnfd.info/

4.2. Dimension 2: Ambition of fossil fuel exclusion or restriction policies

The second assessment dimension is underpinned by three key questions covering the ambition of fossil fuel exclusions and/or restriction policies by type of fossil fuel. Very few countries currently have explicit policies in place to transform ECA portfolios, and especially their energy sector portfolios, to the degree necessary to align with the Paris Agreement (Shishlov et al. 2020 and 2021). One leading example is the UK – which since early 2021 ceased support for all types of fossil fuels in officially supported export finance (albeit with some important exceptions) following an announcement by Prime Minister Johnson (The Prime Minister´s Office 2020). The majority of G20 ECAs only make broad statements and commitments related to social and environmental sustainability, e.g., as communicated through their corporate social responsibility (CSR) strategies and reports. Due to the pre-eminent importance – with regards to achieving the Paris climate goals – of rapid phase out of support for fossil fuel value chains, the methodology weighs this assessment dimension with 40% (Shishlov et al. 2021).

Euler Hermes was rated as 'Some progress' with an dimension sub-score of 0.33/3.00. Besides Q2.1 targeting the ECAs ambition regarding exclusions or restrictions for support of coal and its related value chain ('Some progress'), Euler Hermes qualified as 'Unaligned' in all remaining questions.

Q Nr.	Dimension 2 – key questions	Rating
2.1	**Coal:** How ambitious is the ECA regarding exclusions or restrictions for support of coal and related value chain?	**Some progress**
2.2	**Oil:** How ambitious is the ECA regarding exclusions or restrictions for support of oil and related value chain?	**Unaligned**
2.3	**Natural gas:** How ambitious is the ECA regarding exclusions or restrictions for support of gas and related value chain?	**Unaligned**

Q2.1: How ambitious is the ECA regarding exclusions or restrictions for support of coal and related value chain?

On behalf of the German government, Euler Hermes excludes coal-fired power generation and therefore scores 'Some progress' for Q2.1. This exclusion policy was in place before participants in the OECD Arrangement decided to stop official export finance support for unabated coal power (OECD 2021c). In addition to that, the IMC for Export Credit Guarantees has decided that, from May 2020 onwards, direct supplies and services for the construction of new coal-fired power plants or the expansion of existing ones will no longer be supported under federal cover. However, no further information or explanation for their choice of restriction scope was provided and coal mining and coal related value chains are not mentioned.

It should be noted that coal is generally distinguished between thermal and metallurgical coal. As part of the international coalition 'Export Finance for Future' (E3F), the German government commits to end support for thermal coal projects, which typically refers to projects in the power sector. Industrial applications of metallurgical coal may, however, still be eligible. Next to ending support for unabated coal power generation, the E3F coalition also stated the end of officially supported export finance for coal mining, storage and transport (Ministry of Economy of France 2021). Yet, a similar commitment of support for all types of fossil fuels lacks a concrete timeline as well as a well-defined scope across fossil value chains for members of the E3F, including Germany (ActionAid et al. 2021).

We emphasize the partial nature of these commitments and recommend a comprehensive and formalized phase out policy for coal (including metallurgical coal as well as all stages of thermal and metallurgical coal value chains), including the design of complementary policies and proactive public support for the transition of affected domestic employment where appropriate.

Q2.2: How ambitious is the ECA regarding exclusions or restrictions for support of oil and related value chain?

Q2.2 was rated 'Unaligned'. This assessment is based on the lack of scope of current restrictions on projects in oil-related value chains. While the IMC for Export Credit Guarantees decided in May 2020 that, with immediate effect, new applications related to routine venting and flaring of associated gas during oil production will no longer be supported under federal cover, it is not possible to identify an estimated impact of this policy. Moreover, despite signing the E3F initiative in 2021, Germany federally covered, for instance, the construction and operation of a new heavy fuel oil power plant with a generating capacity of 150 MW in Bangladesh in 2021 (AGA Portal 2021).

We recommend to no longer support oil-related value chains, nor in its upstream, midstream nor downstream components. Clearly, officially supported export finance traditionally was demand-driven and the sectoral distribution of Hermes covers notably depends on the project pipeline proposed by exporters. Yet, in line with the most recent findings by the IEA (2021), the latest UN emissions gap report (UNEP 2021) and the special responsibilities Germany has as an early industrialized nation, officially supported export finance in Germany needs to much more proactively steer the demand for federal covers towards sustainable activities. Studies in other countries, such as the Netherlands and the United Kingdom, furthermore underline that stopping support for fossil fuel-related (including oil and gas) value chains can boost both domestic and international employment, e.g., supporting more labour-intensive renewable energy sector (e.g., Vivid Economics 2020). We therefore recommend that the government engages in discussions with domestic exporters with regards to finding smooth and rapid ways out of oil-related value chains. This may include transforming their portfolios and continue operations in other non-fossil sectors (e.g., see Heller and Muttitt 2021) or simply mean to stop the support for such activities.

Q2.3: How ambitious is the ECA regarding exclusions or restrictions for support of gas and related value chain?

Q2.3 was also rated with 'Unaligned'. This assessment is given since the German government has not issued any formalized exclusion or restriction policy to end support for natural gas-related value chains through Euler Hermes.

Germany continues to proactively support the development of new natural gas fields abroad with regards to securing the supply and satisfying the domestic demand for fossil gas imports. Against this backdrop, it is unsurprising that Germany, together with the Italian ECA SACE, officially supported through Euler Hermes the construction of the controversial Nord Stream pipelines, a multi-billion-euro project operated by Russian carbon major Gazprom and financed through more than 20 commercial banks. Moreover, Germany also supports upstream development of natural gas, the most recent example being the extraction of natural gas and the production of liquefied natural gas (LNG) on the Gydan Peninsula in Northwestern Siberia (AGA Portal 2021). Gas-related projects have over the past years represented by far the largest share of new commitments undertaken by Euler Hermes in fossil fuel value chains (VedvarendeEnergi 2021). Against the backdrop of the new IEA (2021) and UNEP (2021) reports, this goes in contra of Germany´s international climate commitments and further reduces the probability of achieving the 1.5°C goal.

We recommend that the new German government, together with like-minded nations, works towards supporting existing and viable alternatives to satisfy energy demand with clean energy sources. In officially supported export finance specifically, this means to establish a 'sustainable' level-playing field, e.g., as part of the OECD Arrangement which so far only establishes an exclusion for unabated coal-fired electricity generation. As in other areas, a frontrunner in this field is the UK, which announced an end to all public finance for all fossil fuel projects overseas, including natural gas, in December 2020 and implements the policy since the 1st of April 2021. Despite caveats with the British fossil fuel phase out policy, this may serve as a stepping stone during COP26 in Glasgow and accelerate global climate action (E3G and Oil Change International 2021).

4.3. Dimension 3: Climate impact of and emission reduction targets for all activities

The third assessment dimension is underpinned by three key questions regarding the climate impact and GHG emissions reduction targets for all ECA activities. To achieve the objectives of the Paris Agreement, not only rapid fossil fuel phase out is required, but other sectors also need to drastically reduce absolute emissions levels (IEA 2021). In the absence of comprehensive GHG accounting the assessment of this dimension is difficult – however, where possible, we look at second-best indicators to proxy the emission intensity of an ECA portfolio (e.g., fossil fuel-related energy sector finance). The methodology assigns this dimension an overall weight of 20%.

Euler Hermes was rated as 'Unaligned' with a dimension sub-score of 0.00/3.00. Euler Hermes qualified as 'Unaligned' in all key questions constituting this dimension. The lack of publicly available information regarding the climate impact of the German ECA portfolio is the main reason for this result. As highlighted for dimension 1, financial and non-financial disclosure is a prerequisite to evaluate the Paris alignment of ECAs. If this is not given, and cannot adequately be proxied by second best indicators, the assessment in this dimension cannot be better than 'Unaligned'.

Q Nr.	Dimension 3 – key questions	Rating
3.1	Can a declining trend in GHG intensity of the total portfolio be observed? (tCO_2e/US$, Scope 1-3 emissions)	Unaligned
3.2	How significant is the fossil fuel financing relative to total energy-related portfolio? (average of the last three years of available data, where available)	Unaligned
3.3	To what extent do all emission-relevant sectors have targeted GHG reduction targets and in how far are GHG reduction targets in line with benchmarks of acceptable 1.5°C pathways?	Unaligned

Q3.1: Can a declining trend in GHG intensity of the total portfolio be observed? (tCO2e/USD, scope 1-3 emissions)

Euler Hermes does not operate a comprehensive GHG accounting system. This is why the assessment result in Q3.1 is 'Unaligned'.

We recommend pursuing pioneering efforts establishing the GHG intensity of the total portfolio as a first-best data source to observe trends of emissions-intensity of total commitments of the German ECA as well as absolute emission levels. This accounting should comprise scope 1-3 emissions, and be based on progressive measurement standards, such as under development by PCAF (2021).

Q3.2: How significant is the fossil fuel financing relative to total energy-related portfolio? (average of the last three years of available data, where available)

Due to Euler Hermes' reporting on energy-related financing by energy source, it was possible to assess the fossil fuel financing relative to total energy-related portfolio (Q3.2) which amounted on average to 42.3% from 2017 until 2019 but without a visible declining trend (2017: 44.8%, 2018: 28.2%, 2019: 54.1%). This is why the resulting assessment is 'Unaligned'. A better scoring would require a continually decreasing share of fossil fuel-related energy support below 30% of total energy sector portfolio.

A pioneer in this area is the Danish ECA Eksport Kredit Fonden (EKF) whose total export credit guarantee portfolio consists of 70% of clean energy projects, predominantly relatable to wind power (EKF 2021). Acknowledging remaining caveats in other emission-intensive sectors, observers noted that since 2018 EKF has not supported fossil fuel projects anymore despite substantive support in the past (e.g., see VedvarendeEnergi 2021). Following this example, we recommend the German ECA to review and rapidly decarbonize its energy sector portfolio. This should then be demonstrated – as recommended under Q1.2 – a by specifically disclosing financial information for total commitments outstanding and new commitments (i.e., both the project stock and flow) of all activities supported in the energy sector and related value chains.

Q3.3: To what extent do all emission-relevant sectors have targeted GHG reduction targets and in how far are GHG reduction targets in line with benchmarks of acceptable 1.5°C pathways?

Euler Hermes has no GHG emission reduction targets in emission-relevant sectors. The ECA was thus rated with 'Unaligned' in Q3.3.

We recommend that Euler Hermes, as part of a comprehensive climate strategy, works on scenarios of 1.5°C compatibility of its portfolio activities. In reference to the precautionary principle and in line with the special responsibilities of Germany, the only acceptable 1.5°C reference scenarios should include the IPCC P1 illustrative pathways or the IEA (2021) Net Zero pathway released earlier this year. Such scenario-building can credibly be underpinned by proposing sector-specific GHG reduction targets, such as validated and approved the Science-Based Targets initiative (SBTi). Moreover, we recommend that not only Euler Hermes works on such scenarios and targets, but also proposes financial incentives to cover applicants that have approved targets under the SBTi.

4.4. Dimension 4: Climate finance: Positive contribution to the global climate transition

The fourth assessment dimension is underpinned by five key questions regarding an ECA's contribution to a just climate transition and sustainable development. Rapidly ramping up and improving climate finance is crucial to achieve the objectives of the Paris Agreement and contribute to a green and just post-COVID recovery. If ECAs shifted their support from fossil fuel to clean energy activities, their contribution to green finance could be "*very substantial"* according to the independent expert group on climate finance (Averchenkova et al. 2020). This dimension is weighted with 10%.

Euler Hermes was rated as 'Unaligned' with a dimension sub-score of 0.40/3.00. The first three questions regarding climate and clean energy finance were qualified as 'Unaligned' due to the lack of data or insufficient progress. 'Some progress' can is observed in Q4.4 and 4.5.

Q Nr.	Dimension 4 – key questions	Rating
4.1	What is the reported share of climate finance over total portfolio?	Unaligned
4.2	How can the quality/appropriateness of climate finance earmarks be assessed?	Unaligned
4.3	What is the share of clean energy financing over total energy-related financing?	Unaligned
4.4	To what extent does the pricing structure take into account climate impacts of activities?	Some Progress
4.5	In how far does the institution ensure positive sustainable development contributions of its activities?	Some progress

Q4.1: What is the reported share of climate finance over total portfolio?

Euler Hermes does not offer a clear definition of climate finance. The ECA uses the terminology of 'climate-friendly exports' without defining the term and providing no insights beyond renewable energy financing. Due to the lack of clarity, Q4.1 therefore scores 'Unaligned'.

We recommend that Euler Hermes firstly provides a clear definition of climate finance within their portfolio. This should be conducted in line with recommendations provided under Q1.3 and comprise both the share of total portfolio (project stock) as well as new commitments in an additional year (project flow) to achieve a more comprehensive and comparable picture.

Q4.2: How can the quality/appropriateness of climate finance earmarks be assessed?

In the absence of a clear definition of climate finance, also Q4.2 scored 'Unaligned'.

We recommend Euler Hermes to either adopt a common climate finance earmarking such as through the OECD Rio Markers, or a list-based approach following major MDBs and the Dutch ECA Atradius DSB. Moreover, we recommend to fully align the categories of climate finance with the EU Taxonomy on Sustainable Finance as well as the latest climate science, e.g., on the previously controversial question of natural gas and the production of hydrogen (e.g., CEE Bankwatch et al. 2021). Moreover, to ensure Paris alignment we strongly suggest excluding earmarking retrofits of existing fossil fuel power plants as climate finance as these still cause carbon lock-ins and therefore should not be considered climate finance (e.g., see Lütkehermöller et al. 2021).

Q4.3: What is the share of clean energy financing over total energy-related financing? (average of the last three years of available data, where available)

Similar to the energy-related fossil fuel financing relative to total energy-related financing (Q3.2), the clean energy financing could be assessed through Euler Hermes's energy sector reporting. It amounted to 55.5% from 2017 until 2019 but without a visible upwards trend (2017: 50.6%, 2018: 71.2%, 2019: 44.4%). Euler Hermes therefore does not meet the benchmark for 'Some progress', which is an increasing three-year average above 70%. Consequently, the question was rated as 'Unaligned'.

It should be noted at this point that due to 'special renewable energy initiative' ('*Sonderinitiative Erneuerbare Energien*'), the share of renewables in the energy portfolio may exceed the necessary benchmark over the next few years which could then alter the assessment score. We recommend establishing a clear definition of 'clean energy' which is comparable to the definition of 'fossil fuel-related' energy.

Q4.4: To what extent does the pricing structure take into account climate impacts of activities?

Euler Hermes was rated with 'Some progress' in Q4.4. The reason for this assessment is that Euler Hermes developed, as already mentioned above, the 'special renewable energy initiative' as an incentive system for renewable energy projects.

This new initiative to promote climate-friendly exports includes, for instance, an adjustment to the 'extended 49-plus rule' which allows eligibility for federal covers for transactions in the field of renewable energies with up to 70% of value added originating from foreign providers. In other sectors, at a minimum of 49% of the value added of a certain transaction needs to originate from Germany. Furthermore, the 'special renewable energy initiative' provides for greater flexibility in financing local costs. Lastly, the German government's pilot phase for the evaluation of climate impacts of export credits, which took place in the second half of 2020, examined different international benchmarks, such as the EU Taxonomy on Sustainable Finance developed the European Commission to assess the climate impacts of federally covered transactions (Federal Ministry for Economic Affairs and Energy 2021d). For applications for Hermes cover, technical criteria from the Taxonomy Regulation are to be used as "best-in-class benchmarks" (Federal Ministry for Economic Affairs and Energy 2021e). In return, the German government intends to offer improved cover conditions in the climate strategy yet to be determined if companies prove that the criteria from the taxonomy are met. Fulfilment of technical criteria (best-in-class) from the taxonomy can thus mean an advantage and more attractive conditions in export financing (Engelbach 2020). How this approach will be executed and how much of the total portfolio will be covered in an EU taxonomy-compatible way remains however uncertain.

We recommend the German ECA to further expand its incentive structures for climate-friendly activities and discuss their applicability, benefits and shortcomings with domestic exporters. This may further improve the incentive structures as well as increase demand for federal cover in that sector. Moreover, Euler Hermes could apply a price discrimination for premiums paid by exporters or banks based on the actual or proxied emission intensity of maximum insured values (instead of generically listing eligible project types). While such an approach would ideally require information about the actual emissions of an activity across all scopes, in a less ideal world this can be proxied at the sectoral- or activity-level.

Q4.5: In how far does the institution ensure sustainable development contributions from its activities?

The German ECA scored 'Some progress' in Q4.5 as it goes beyond the formal requirements defined under the Common Approaches. This means, for instance, that Euler Hermes subjects every transaction that could have serious environmental, social and human rights risks to a risk assessment irrespective of the credit period and the contract value involved, and not only transactions with credit periods of more than two years and the contract values above EUR 15 million. Moreover, as of 2014 Euler Hermes no longer provides export credit guarantees for supplies and services for nuclear facilities abroad. This exclusion of cover applies to both new and existing nuclear energy plants (Federal Ministry for Economic Affairs and Energy 2014).

Front runner ECAs in this domain is for instance the Swedish ECA, which supports a transformation of the entire export finance system considering broader sustainability aspects.

We recommend phasing out support to fossil fuel value chains, as fossil fuel-related activities tend to more frequently stand in conflict with broader sustainable development goals and essentially undermine climate objectives. Moreover, we recommend to take local stakeholders into account as early as possible when conducting environmental and social due diligence assessments.

4.5. Dimension 5: Engagement - Outreach and 'pro-activeness' of ECAs and their governments

The fifth assessment dimension is underpinned by three key questions aimed at capturing the engagement and ambition of climate and sustainability policies of the government and its ECA in international fora as well as with national exporters and banks. This dimension is weighted with 10%.

Euler Hermes was rated as having 'Some progress' with a dimension sub-score of 1.00/3.00. This means that all three questions were scored with 'Some progress'.

Q Nr.	Dimension 5 – key questions	Rating
5.1	To what extent does the institution itself or its government actively engage in relevant international fora (e.g., E3F, OECD, the Berne Union, WTO, or the World Economic Forum) to liaise with like-minded for ambitious climate policies in the export finance system?	Some progress
5.2	To what extent does the institution itself or its government actively engage in relevant national fora with view to implementing ambitious climate policies in the (national) export finance system?	Some progress
5.3	To what extent does the institution or its government actively engage with national companies to transform fossil fuel-related value chains and incentivize low GHG exports?	Some progress

Q5.1: To what extent does the institution itself or its government actively engage in relevant international fora (e.g., OECD, the Berne Union, WTO, E3F or the World Economic Forum) to liaise with like-minded for ambitious climate policies in the export finance system?

Euler Hermes was assessed with 'Some progress' regarding its engagement for ambition climate policies in the export finance system.

This assessment is based on several international engagements. As part of the G7 (next to Canada, France, Italy, Japan, the UK, and the US), Germany agreed in the latest G7 declaration of May 2021 to "phase out new direct government support for international carbon-intensive fossil fuel energy as soon as possible, with limited exceptions consistent with an ambitious climate neutrality pathway, the Paris Agreement, 1.5°C goal and best available science". In more detail, the declaration emphasises that the *G7* "commit now to an end to new direct government support for unabated international thermal coal power generation by the end of 2021, including through Official Development Assistance, export finance, investment, and financial and trade promotion support" (Council of the EU and the European Council 2021).

Moreover, as mentioned above, Germany is part of the 'Export Finance for Future (E3F)' coalition which aims to accelerate the phasing out of carbon-intensive projects and significantly increase the financial support to exporters' projects compatible with Paris Agreement. The seven signing countries call upon all other countries to join the coalition and align export financing with climate objectives. While the participation in a coalition for fossil fuel phase out is commendable, critics of the coalition stress that "rather than adding new commitments, the E3F principles are simply a reiteration of what most signatories are already doing: not supporting the coal sector, increasing support for 'green products', and being more transparent about their support for oil and gas (Both ENDS 2021)". These authors emphasise that only an end to all export finance for fossil fuels would make a real difference (*ibid.*).

Moreover, Euler Hermes is part of the Berne Union Management Committee 2020/22 as an institutional member and no evidence of exerting peer pressure against climate-related policy reform was found for the German ECA. Lastly, there is no public information available on the German stance on taking up negotiations at the International Working Group on Export Credits (IWG) which has been suspended last year due to overly divergent positions (European Commission 2020).

We recommend that the German government further follows and strengthens its potential to lead the way for climate-related reform in the export finance system. More specifically, we recommend the German government to actively:

1. Act as a frontrunner within the group of G7 countries by implementing the new regulations under the G7 declaration in a timely and transparent manner and to push for further expansion of the stated commitments towards stopping all direct government support for all fossil fuels and their related value chains - not only for unabated thermal coal power generation.

2. Seek support from other more ambitious members of the E3F initiative (e.g., the UK) and raise its ambition rather than advocate for more extensive membership, which may potentially lead to watering down the ambition using the 'lowest common denominator'.

3. Further deepen and publicly report on negotiations at the OECD level, especially with the US and Japan; and particularly against the background that China announced a phase out of all support for coal-fired electricity generation in overseas markets (e.g., see Carbon Pulse 2021).

4. Strategize with like-minded OECD Arrangement participants about how to leapfrog gradual changes and achieve a transformative climate-related policy reform of the Arrangement including through adoption of restrictions for oil and gas export finance at the OECD (to complement the CFSU) – in a way that prevents loopholes that allowed continued coal power finance despite CFSU.

5. Enhance and publicly report on progress on climate- and environmental diplomacy between the OECD and non-OECD members of the export finance system, through the IWG with China.

6. Deliberate with like-minded countries about forming a new 'level playing field' outside the OECD Arrangement to accelerate progress and typify the design of a Paris-aligned and sustainable international export finance regulation.

7. Promote ambitious climate-related reforms for European competition policy with the Directorates-General for Trade and Climate at the European Commission.

Q5.2: To what extent does the institution itself or its government actively engage in relevant national fora with view to implementing ambitious climate policies in the (national) export finance system?

Q5.2 was rated 'Some progress' owing to the German government´s engagement in advancing renewable energy exports together with a wide array of nationally-active actors, including from business, civil society and research.

For instance, the Ministry for the Economy (BMWi) targets small and medium-sized enterprises (SMEs) with support for enhancing exports in the area of renewable energy, energy efficiency, intelligent grid and storage systems or novel technologies including power-to-X and (green) hydrogen (e.g., BMWi 2021).

We emphasize the necessity of open dialogue on the topic of 'Paris alignment' of Germany´s official export promotion, highlighting the above mentioned necessary steps (e.g., on phasing out support for fossil fuel value chains) and discussing complementary policies together with all national stakeholders, including civil society actors, e.g. NGOs and research institutions. Moreover, Euler Hermes could collaborate more closely with other relevant actors, e.g., bilateral development finance institutions such as the KfW, to align their approaches and work towards setting consistent and common climate targets.

Q5.3: To what extent does the institution or its government actively engage with national companies to transform fossil fuel-related value chains and incentivize low GHG exports?

The 'special renewable energy initiative' can be considered a first step to actively engage with national companies to incentivize low GHG exports wherefore Q5.3 was rated with 'Some progress'.

ECAs are typically perceived as only demand-driven. However, this is no 'given' and **we recommend** that both Euler Hermes and the German government deepen their engagement with their clients, in particular in the oil and gas sector, to identify ways and means of transforming their export businesses and putting in place complementary policy measures to compensate for short-term economic losses, such as employment transition or compensation management. The government will have to strike a balance between getting the companies to pay for the transition – e.g., retraining of workers – and the government carrying these costs. More specifically, we urge the German government to conduct national-level surveying among exporters with regards to identifying the opinions, needs and opportunities in the private export sector about ambitious plans to phase out support for fossil fuel value chains. This should include, for instance, general questions about the attitude of German exporters towards taking part in the transition (for an example see a study by Bright Blue (2021) on the UK) as well as specific questions regarding anticipated job or sales losses (e.g., see the Swedish ECA EKN (2020) which has conducted similar assessments with major exporters). Moreover, next to liaison with companies, we recommend engaging with national and international research institutions and establish a scientific advisory council on climate change and export finance also following the Swedish example (*ibid.*). This is highly relevant to take the most recent developments at the frontier of climate science into account in the ambition of German policies in officially supported export finance.

5. Conclusions and recommendations

This study applied a multidimensional 'Paris alignment' assessment methodology for ECAs to Euler Hermes, the official export credit agency operating on behalf of the German government. This public finance institution was found to be 'Unaligned' with the objectives of the Paris Agreement – a finding starkly contrasting with the international climate commitments of Germany under the UNFCCC as well as with its domestic climate policies. All in all, the German ECA was rated best in the 'Engagement' dimension, the only dimension receiving a scoring of 'Some progress'. The overall picture illustrates the lack of ambition in climate policies for official support of German export businesses. This becomes especially apparent when comparing Euler Hermes to other ECAs, of which some act as real frontrunners in specific areas: France for engaging in GHG accounting, Sweden for its commitment to the TCFD or the UK with their exclusion of all fossil fuel export financing. In order to bring German officially supported export finance closer to Paris alignment, it is imperative to expand the exclusion policies to coal, natural gas and oil and related value chains as well to increase transparency with regards to Euler Hermes's climate impacts. At the moment, more than ever before, there is an international political momentum that Germany should not miss, especially under the prospective government currently under formation. This case study shed light on the dichotomy that exists between Germany´s ambitious domestic climate policies and its commitments under the Paris Agreement on the one hand, and Germany´s performance in officially supporting exports on the other hand. Based on the analysis provided above, Table 2 summarizes the specific recommendations per assessment dimension.

Table 2: Summary of key recommendations per assessment dimension

Key recommendations for the 'Paris alignment' of officially supported Japanese export finance	
Financial and non-financial disclosure and transparency (***Dimension 1***)	• Increase the ECA transparency, notably making publicly available the information related to support for carbon-intensive activities and associated GHG emissions of their portfolios. • Implement climate-related disclosures in line with the TCFD recommendations or, prospectively, in line with the TCND.
Ambition of fossil fuel exclusion or restriction policies (***Dimension 2***)	• End export finance for all types fossil fuels, including related value chains. • Formalize commitments and phase-out policies for natural gas with the same immediacy and scope as for coal and oil. • Adopt the necessary complementary policies to support such action.
Climate impact of and emission reduction targets for all activities (***Dimension 3***)	• Set out an ambitious climate strategy for Hermes covers based on latest scientific findings and best practices in the export finance system. • Implement GHG accounting (scope 1 - 3) as soon as possible. • Design 1.5°C scenarios for Euler Hermes on a conservative and precautionary basis with reference scenarios from the IEA Net Zero or IPCC P1 pathways.
Contribution to a just climate transition and sustainable development (***Dimension 4***)	• Develop a clear definition of climate finance. • Adopt a common climate finance earmarking or develop a tailor-made approach. • Report climate finance as a share of total portfolio (stock) and new activities per year (flow). • Take a precautionary approach to broader sustainable development by ceasing support to fossil fuel value chains. • Take a leadership role for climate-friendly export promotion through targeted incentive systems for climate-friendly activities identified, e.g., through the EU Taxonomy on Sustainable Finance and in accordance with the latest climate science.
Outreach and 'pro-active-ness' of the ECA and its governments (***Dimension 5***)	• Speed up the process of aligning the global export finance system with the Paris Agreement, e.g., by advancing the OECD Arrangement exclusion and restriction policies toward the oil and gas sector; and closing loopholes within existing arrangement with regards to metallurgical coal applications as well as other coal-related value chains. • Engage in targeted international climate diplomacy negotiations, e.g., with non-OECD members such as China, to create a sustainable 'level playing field' in the global export finance system. • Work in tandem with national exporters and design complementary policies to cope with potential short-term economic challenges of fossil fuel phase out.

Note: Please refer to the respective sections above for fully detailed recommendations.

This study is part of a series of case studies on major G20 ECAs which illuminate gaps of alignment of ECAs with the Paris Agreement and identify potentials for improvement bridging the latest scientific insight and policy making. The results of the assessments shall serve as a foundation for discussions to reform the export finance system – both on the international level, e.g., through the OECD, and on the level of national ECA policies – and fully align it with the objectives of the Paris Agreement.

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