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G20 governments must urgently align their officially supported export credits with the Paris Agreement

Export Credit Agencies of G20 countries are still providing USD billions in support to fossil fuel projects. This aggravates the lock-in of carbon intensive infrastructures and directly contradicts the commitments under the Paris Agreement.

Achieving the low-carbon and climate resilient transition requires massive reorientation of investment flows, which entails significant changes in the lending and insurance policies of financial institutions. This relates to both increasing funding for low-carbon infrastructures and reducing funding of carbon-intensive infrastructures. Public finance institutions (PFIs) play a powerful role in catalyzing private climate investments, but this catalyst role can manifest itself in both directions, i.e. supporting the low-carbon and climate resilient transition if climate finance is prioritized or slowing it down if financing of carbon intensive infrastructures continues.

All public finance institutions must align their operations with the Paris Agreement

Over the past years climate action in PFIs, such as multilateral development banks (MDBs) and bilateral development agencies received significant attention from policymakers, researchers, NGOs and the general public. Many such PFIs have set themselves quantified objectives with regards to the share of climate finance in their portfolios, committed to phase-out support for investments in fossil fuels and implemented broader climate commitments, for example related to carbon accounting and climate risks. One category of PFIs, however, has remained largely indifferent about climate action – Export Credit Agencies (ECAs).

ECAs are financial institutions operating on behalf of their country's government or are governmental agencies themselves which in either case, provide support to promote domestic companies' international export of goods and services. An ECA provides government-backed loans, financial guarantees or credit insurance, depending on the mandate it received by its government. Contrary to the Paris Agreement commitments, G20 countries still provide significant financial support to fossil fuel investments through their ECAs.

For example, a study by the Natural Resources Defense Council estimated that ECAs of G20 countries provided at least USD 38 billion in public financing for overseas coal projects from 2013 to 2016 and only USD 25 billion for overseas renewable energy projects in the same period. Looking at all

fossil fuels – coal, oil and gas – a study by Oil Change International estimated that from 2016 to 2018 G20 countries' ECAs provided an annual average of USD 40.1 billion to support fossil fuel projects. These sums are in the same order of magnitude as climate finance committed by MDBs, but acts directly against the objectives of the Paris Agreement.

A severe lack of policies to decarbonize officially supported export credits

A recent study by Perspectives Climate Group and the University of Zurich reviewed external policies and standards applying to ECAs as well as their internal policies and commitments in seven G20 countries: Canada, Denmark, France, Germany, the Netherlands, Sweden and the UK. The study demonstrated that most international environmental and social standards are applied on a purely voluntary basis. Moreover, they are mainly focused on increasing transparency and promoting social and environmental safeguards while not directly affecting the ECAs' portfolios. None of them has explicit requirements to phase out support to fossil fuels and align operations with the Paris Agreement. The existing standards thus do not support fossil fuel project support phase-out.

In 2016, the OECD developed the Coal-Fired Electricity Generation Sector Understanding (CFSU), which provides stricter terms and conditions for the provision of officially supported export credits relating to coal-fired electricity generation projects. However, it does not mandate the phase out of export support to coal-fired power plants completely, neither does it affect the support for upstream coal projects. Following an extension of the OECD guidelines in 2019, financing is only allowed for large coal-fired power plants with 'ultra-supercritical technology,' or with an emissions intensity of below 750g CO_2/kWh of electricity produced. No such restrictions exist for coal and gas projects.

As to internal climate change policies, none of the seven ECAs studied made explicit commitments to phase out support to all fossil fuels and fully align their operations with the Paris Agreement. Currently, only some G20 countries made explicit commitments and put in place policies for at least partially decarbonizing portfolios of their ECAs. Only a few ECAs made explicit commitments to phasing out support for coal, but not oil and gas projects. Overall, most ECAs are thus at a very early stage of taking climate change considerations seriously and integrating them into their business strategies and global value chain.

Not enough transparency concerning the climate impacts of their portfolios

Finally, it appears that ECAs' operations and their policies are rather opaque and less transparent than these of MDBs and bilateral development agencies. ECAs lack transparency particularly regarding their support to fossil fuel investments and the related GHG emissions impacts of their portfolios. Methodological discussions regarding accounting for export

credits and their possible mobilization effect in the context of climate finance monitoring and reporting are also at a nascent stage.

This gap is particularly glaring given that ECAs provide almost twice the amount of international public finance compared to MDBs and also given that some researchers and NGOs attempted to flag the issue already in the early 2000s. There is thus an urgent need to draw more attention of the climate finance community, as well as broader high-level policymakers and the general public to this issue.

Next steps necessary to decarbonize officially supported export credits

In order to address the urgent challenge of decarbonizing officially supported export credits, three key steps must be undertaken. First, a robust Paris alignment methodology for export credit agencies should be developed. The methodology should build upon the best practice experiences from the financial sector initiatives including both the private sector – e.g. the Science-Based Targets Initiative, the Paris Aligned Investment Initiative, etc. – and the public sector – e.g. the Paris Alignment Working Group of the Multilateral Development Banks (MDBs), Green Taxonomy of the EU.

Second, the methodology should be applied to ECAs of all G20 countries and the results should be made public. Making ECAs' operations more transparent will serve to identify best and worst practices in ECAs, provide accessible information on ECAs to policymakers, NGOs and general public, and put pressure on ECAs to improve their climate ambition and policies. Finally, the reforms of ECAs' policies and possibly their mandates should be undertaken through a multi-party policy dialogue. The policy dialogue should build upon the approaches implemented in successful consultation processes in the past, such as, for example, the EU Green Taxonomy process, the MDB Paris Alignment Working Group, etc.

As shown by the European Investment Bank (EIB) which in November 2019 decided to stop financing of oil, gas and coal projects after 2021, PFIs cannot be market neutral and must be used to play an active role in the low-carbon and climate resilient transition. ECAs are not an exception and must be fully aligned with the Paris Agreement. The EU should take the lead in the ECA reform process following the EU Parliament COP25 resolution issued in November 2019, which calls the Member States to apply the same principle as applied by the EIB when it comes to export credits.