Key considerations for sustainable European export finance

Abstract

Current European Union (EU) Member States’ policies on export credits are not aligned with climate mitigation goals, allowing for continued investments in fossil fuel projects abroad. In the period 2019-2021, some six years after the Paris Agreement was signed, G20 export credit agencies (ECAs) have provided seven times more support for exports of fossil fuel projects than for clean energy, averaging US$33.5 billion per year versus US$4.7 billion per year. Some European export credit agencies are heavily involved in fossil fuel projects, with data showing that ten of the largest European ECAs (including the United Kingdom agency) granted support for about €30 billion (or 17 percent of the total export credits granted) in the years 2015 to 2020 to fossil fuel-related activities. Even if some countries have taken the initiative to phase out fossil fuel support from export finance, the EU could play a key role in the implementation of a wider phaseout of fossil fuel-related export finance at the European level, thus contributing to a level playing field in the alignment of financial flows to climate mitigation goals, and ensuring that the EU and its Member States are at the forefront of the climate transition. Instead, the lack of policy initiative to align the export credit regulatory framework with climate goals is allowing European companies to finance projects with negative impacts on the climate, the environment

KEY RECOMMENDATION

- The European Commission should promptly introduce a new regulatory framework on export credits to ensure alignment of European export finance to climate change mitigation goals.
and public health. This also makes it harder for the EU to fulfil its obligations under the Paris Agreement and undermines the EU’s strategic ambition of creating a modern, resource-efficient and competitive economy. This paper argues and provides recommendations for a reform of export credits at the European level, to ensure alignment of European export finance to climate mitigation goals and to create the conditions for a wider phaseout of investments in fossil fuels.

**Background**

ECAs play a crucial role in financing energy and other infrastructure projects. Until now, given the predominant role of coal, oil and gas in global energy systems, this has meant that ECAs have been significant financial backers of fossil fuels projects, including the exploration and extraction of oil and gas, transport and storage of fossil fuels, and fossil fuel-fired power generation. Recently, however, policy change to align export finance to a low-carbon economy has accelerated. The United Kingdom was one of the first movers in this area, adopting an extensive fossil fuel exclusion policy in March 2021. As of 2023, Sweden, Denmark and France all prohibited export support to fossil fuel projects, except in a few circumstances, and adopted policies to develop and increase export finance for renewable energy projects. Other countries committed to do so at COP26 through the Glasgow Statement on international public support for the clean energy transition. Thanks to initiatives like Export for Future Finance (E3F) and the Glasgow Statement, other countries have improved their climate and export finance policies. Both initiatives started in 2021 and include commitments for first-mover countries to phase out export credit support for fossil fuels.

However, export finance within the EU is not yet fully aligned with pathways that limit warming to 1.5°C, due to poor national policies, lack of strategic perspectives on the role of export credits, as well as lack of political interest to reform export finance (both at the national level and within EU institutions). Lack of action also comes down to political factors, including lobbying by the fossil fuel sector and associated industries to ensure export support for their business. The lack of alignment of EU export finance with climate mitigation goals not only exacerbates the climate crisis but also creates an “un-level playing field” between EU countries.

**Recent developments on export credits in the EU**

Currently, export credits in the EU are governed by Regulation 1233/2011. However, this regulation does not reflect current EU strategic, regulatory and political ambitions and developments with regard to climate change. Instead, it merely renders the Arrangement adopted within the Organisation for Economic Co-operation and Development (OECD) (see textbox) legally binding for the ECAs of EU members. Within the OECD Arrangement, only new coal-fired power plants are explicitly excluded from officially supported export credits or tied aid. While the prohibition of export support for new coal-fired power plants is positive, it is not in line with the main decarbonisation scenarios nor with the need identified by the Intergovernmental Panel on Climate Change (IPCC) to redirect existing financial flows from high- to low-emission technologies and systems. For example, the International Energy Agency (IEA) Net Zero Emissions by 2050 Scenario (NZE) states that no new oil and gas supply is needed if the global economy is to align with a 1.5°C trajectory. In the 2021 IEA World Energy Outlook, this message is restated: “In the NZE, the fall in oil demand and prices does not justify investment in new [oil] fields after 2021”, and “[i]n the NZE, no new gas fields are developed beyond those that have already been approved for development”. In addition, the IEA NZE scenario also states that, in a net zero by 2050 scenario, there is no need for “many of the liquefied natural gas (LNG) liquefaction facilities currently under construction or at the planning stage”.

Thus, from a climate change mitigation policy perspective, the current EU framework on export credits lacks a coherent approach. This is not
The OECD Arrangement and Common Approaches

Internationally, export credit practices are regulated by the OECD Arrangement on Officially Supported Export Credits (the “Arrangement”). The Arrangement is meant to promote a level playing field between participants, and to encourage fair competition while limiting excessive state support to domestic companies. Participants to the Arrangement are Australia, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland, Turkey, the United Kingdom and the United States.

Through the Arrangement, the participants agree on limitations to financing terms and conditions in order to create a level playing field, and to agree specific rules for certain sectors (Sector Understandings). These include more favourable terms for exports relating to water, renewable energy or climate change mitigation projects (Climate change sector understandings, or CCSU). In October 2021, the Coal-Fired Electricity Generation Sector Understanding was phased out and converted in an explicit exclusion of new coal-fired electricity generation plants from officially supported export credits.

Further efforts are taking place at the OECD level to modernise the OECD Arrangement. This resulted in a March 2023 statement problematically expanding the scope of the CCSU to more technologies, including carbon capture and sequestration, and “clean” hydrogen and ammonia.

In addition to the Arrangement, the OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (“Common Approaches”) are a set of guidelines and principles that provide a framework for ECAs to evaluate and manage environmental and social risks associated with their financing activities, and further requires OECD Participants’ ECAs to address environmental, social and human rights impacts, as well as anti-bribery and lending to heavily indebted countries.

surprising since many of the participants in the OECD Arrangement have fossil fuel-intensive domestic industries that rely on export support, and lower ambition in the fight to climate change than the EU.

The European Commission identified this policy gap in its trade policy documents, e.g. in the 2021 Trade Policy Review by acknowledging the need to align trade tools to climate neutrality pathways, including phasing out fossil fuel subsidies and further investments in fossil fuel energy projects in third countries. However, it has remained remarkably passive when it comes to taking steps to further regulate export credit agencies to limit support for fossil fuel projects.

In a positive development, the Council of the EU has also taken the initiative to increase action around climate and export credits. In its March 2022 Conclusions focusing on officially supported export credits, the Council stressed the need to shift export finance from fossil fuel energy projects towards climate-neutral and climate-resilient technologies and called on the European Commission to create the conditions for a modernisation of the OECD Arrangement with the goal of “ending officially supported export credits for projects in the fossil fuel energy sector”. In addition, the Council announced the intention by Member States to present plans for ending export support to fossil fuel energy projects by the end of 2023 and to enhance the climate change components of their reporting to the Commission. (Currently, EU Regulation 1233 requires Member States to report to the Commission how environmental risks are taken into account by their ECAs.) Previously the Council, in its Foreign Affairs configuration, also indicated the need to discourage further investments in fossil fuel energy infrastructure, and to modernise export credit frameworks through the 2021 and 2022 Council Conclusions on EU Climate Diplomacy.

However, it is important to note that the Council Conclusions are not legally binding, even though they do constitute a strong political signal, as they are based on consensus among the governments of the EU Member States. As such, relying only
on Member States to present ambitious plans regarding export credit agencies’ alignment to climate mitigation goals seems an unlikely way to ensure the phase out of fossil fuels. Further action is needed at both a political and regulatory level to ensure that the intentions stated in the Council Conclusions are followed by all Member States, as well as to ensure a real level playing field and a common level of ambition among EU Member States.

It is desirable that the Commission should initiate regulation to ensure the phase out of fossil fuel subsidies and further investments in fossil fuel energy projects in third countries, as well as leading to a level playing field among states. In turn, the Council and the Parliament should engage with the Commission to initiate this regulatory action in order to fully realise the objectives of the March 2022 Conclusions on export credits.

The Global Gateway and export credits

Discussions around the modernisation of export credits have converged with recent EU plans to leverage public and private finance, including export credits, to promote investments in digital, transport, climate and energy, and health infrastructure, an initiative known as the Global Gateway. The Global Gateway aims to promote EU investments overseas and to align the EU’s external action to the EU’s climate and policy objectives, while addressing a perceived lack of level playing field for EU businesses. According to the Global Gateway communication, EU businesses have to compete with companies in non-OECD countries receiving significant support from their domestic governments, thus putting European exporters at a disadvantage.

In February 2023, within the context of the Global Gateway and the Green Deal industrial plan, the EU Commission proposed the establishment of an EU-wide ECA, stating its intention to “develop an export credits strategy including an EU export credit facility and enhanced coordination of EU financial tools”, an intention previously stated in the 2021 EU Trade Policy Review. At the moment, it is rather unclear what role an EU-wide export credit facility would have, and how it would relate to the national ECAs already in place. Even though an EU-wide ECA will focus on providing export support to low-carbon infrastructure, it could be problematic if it adopts lower standards on human rights, sustainability or the environment than some national ECAs, as it would potentially mean that deals not approved by national ECAs could be approved by the EU ECA.

Climate Council: Example from the Swedish context

Sweden has phased out most fossil fuel projects from international public finance including export credits. As recently as 2020, the Swedish export credit agency EKN’s policy allowed for most investments in fossil fuels, except the limitations concerning large coal-fired power plants found in the OECD Arrangement. Gradually, through repeated revisions of its sustainability policies in 2020, 2021 and 2022, EKN limited export support to fossil fuel energy projects, with the exception of gas power generation in clearly defined circumstances. EKN also instituted a Climate Council to advise on its policy stance on export projects with high climate impacts. This example shows how input from climate and energy experts can help export credit agencies (and other government agencies) to enact policies that will help to align their activities to climate change mitigation goals.

Sweden has phased out most fossil fuel projects from international public finance including export credits. As recently as 2020, the Swedish export credit agency EKN’s policy allowed for most investments in fossil fuels, except the limitations concerning large coal-fired power plants found in

- the OECD Arrangement. Gradually, through repeated revisions of its sustainability policies in 2020, 2021 and 2022, EKN limited export support to fossil fuel energy projects, with the exception of gas power generation in clearly defined circumstances. EKN also instituted a Climate Council to advise on its policy stance on export projects with high climate impacts. This example shows how input from climate and energy experts can help export credit agencies (and other government agencies) to enact policies that will help to align their activities to climate change mitigation goals.
Key challenges to sustainable European export credit

1. Lack of policy coherence with the EU climate and environmental objectives and its strategic work on climate

The lack of alignment of the policies of national ECAs with EU climate change mitigation goals is arguably an example of policy incoherence. Essentially, export support to fossil fuel technologies stands at odds with the EU and its Member States’ commitments to global climate action under the Paris Agreement, including to make financial flows consistent with a low-carbon economy, and to promote technology development and transfer to support climate action.

In addition, the lack of policy initiatives in this area is arguably also incoherent once compared to the regulatory initiatives governing sustainability performance and disclosure by corporate and financial actors in the EU, and with the climate goals of the EU. For example, while the EU has adopted a Directive to regulate non-financial disclosure of companies, as well as criteria for how fund managers should communicate the environmental and climate credentials of their investment products, there have been no active efforts to regulate disclosure of ECAs and to create a taxonomy for the activities of ECAs. This means in practice that export credit agencies can operate with fewer disclosure requirements and a lower degree of scrutiny by the media, public and civil society than those that companies and investors must comply with. Likewise, current drafts of the upcoming Directive on Corporate Sustainability Due Diligence do not seem to include ECAs in the scope of the Directive, thus in practice allowing ECAs to follow the OECD Common Approaches for environmental and social due diligence instead of the more detailed requirements of the proposed Corporate Sustainability Due Diligence Directive.

Member States’ continued export support for fossil fuel projects is also directly at odds with the scope and goals of other EU initiatives like the Green Deal, Global Gateway and the Fit-for-55 package. All these policy initiatives focus on redirecting investments and trade and economic activities away from fossil fuels and towards renewable energies, including by stating the ambition to work with trade partners in developing net-zero technologies.

2. Current EU regulation on export credits is not well suited when it comes to ensuring the compliance of ECAs’ activities with the EU’s objectives and obligations

Currently, Regulation 1233/2011 requires the European Commission to evaluate the compliance of national ECAs with EU “objectives and obligations”, based on reporting from Member States. To carry out this evaluation, the Commission relies on the OECD Common Approaches (see textbox). However, the Common Approaches can be considered as weaker and less comprehensive in setting standards in climate, environment and human rights than European legislation and hence insufficient when it comes to evaluating compliance with the body of EU law and the EU’s External Action obligations. In the past, this has led to ineffective reviews by the Commission. In 2018, the EU ombudsman, reviewing a complaint by civil society on the inadequacy of the Commission’s evaluation, agreed with this analysis and found that the Commission’s reviewing could be improved. It recommended the Commission should adopt guidelines to ensure comprehensive reporting by Member States as well as to take steps to enhance its own analysis and evaluation of the reporting. While Regulation 1233/2011 does not inhibit the Commission from improving its annual review of the activities of export credits, new rules could enhance both the scope of ECA disclosure and the extent of the Commission’s review.

3. Voluntary coalitions can facilitate the climate transition but are not sufficient to achieve it

Over the past few years, initiatives to coordinate climate action and facilitate progress towards climate change mitigation goals within export
credits and international public finance were established. It could be argued that such initiatives happened partly in response to policy inaction at the European level, as well as because of the slow progress in the modernisation of the OECD Agreement. Relevant initiatives include the inter-ministerial initiative Export for Finance Future (E3F),\textsuperscript{22} in which participants commit to align export finance to climate stabilisation objectives of the Paris Agreement, and the Glasgow Statement at COP26.\textsuperscript{23} While these initiatives have contributed to policy changes in several countries, as well as increasing coordination on international public finance climate policies amongst countries and laying out a roadmap to accelerate the alignment of frameworks governing export credits with climate commitments, they remain voluntary. They have so far fallen short of achieving a comprehensive alignment of export credits with climate mitigation goals and an exclusion of export finance to fossil fuel energy projects in either the EU or OECD. In addition, some of the countries that joined the commitments are lagging behind in disclosing the approach of policies in aligning national export credits with 1.5°C pathways or proposing approaches with major loopholes.\textsuperscript{24} Voluntary initiatives and commitments can play a positive role in accelerating the climate transition, as well as promoting dialogue, trust and cooperation amongst the concerned parties and establishing best practices and creating new standards. However, they do not on their own necessarily lead to systemic and comprehensive policy change. This is due to several factors, including the lack of enforcement mechanisms, the instability of coalitions, their susceptibility to the changing policy context and priorities, conflicts with other policy goals and the resources required to achieve effective change.\textsuperscript{25} Hence, it can be argued that the effectiveness of these approaches depends on the extent to which they are accompanied by comprehensive policies and legal frameworks.

4. Reliance on the OECD Arrangement on officially supported export credits allows non-EU countries to unduly influence EU policy

The EU is a member of the OECD Arrangement, and as such, it must comply with its guidelines, which, as we have seen above, are made legally binding for the ECAs of Member States through Regulation 1233/2011. However, many non-EU countries are participants in the OECD Arrangement and negotiate the text of the Arrangement according to their national interests. This means that effectively the EU is letting non-EU countries partly determine its export credit regulatory framework. This can take place on several levels, including the level of ambition of climate policies as well as environmental and social due diligence safeguards. Considering the EU’s ambitions to lead on climate action and being a trusted trade partner, it seems contradictory to base the EU regulatory framework on export credits on the agreement with non-EU countries, which often have other strategies and interests. In the case of export credits, this has slowed down the adoption and implementation of strong and coherent climate policies, as well as social and environmental safeguards.

5. Fossil and unproven technologies as false solutions

To address climate change, the OECD and EU are establishing favourable financing conditions for certain technologies. According to a March 2023 OECD Participants’ statement,\textsuperscript{26} this includes “environmentally sustainable energy production”, CO\textsubscript{2} capture, storage and transportation, transmission, distribution and storage of energy, clean hydrogen and ammonia, low emissions manufacturing, zero and low emissions transport, and clean energy minerals and ores. These technologies are not without technical and economic challenges and can have negative impacts on the environment and human rights.\textsuperscript{27} There is also a risk that, through the use of loopholes and generic definitions of “climate-friendly” and “clean”, the financing and deployment of these technologies will contribute to maintaining the status quo and further promote
the use of fossil gas and other unsustainable technologies. Additionally, it is important to consider the need for systemic change and transformation towards a sustainable, low-carbon economy building on energy democracy rather than relying on investments in individual technologies or solutions.

6. Lack of transparency

There is a need for regulation requiring EU ECAs to disclose deals and to map and disclose the risks present in their value chains, in line with the Directive mandating the disclosure of non-financial information to EU companies and investors. As of now, ECAs are opaque actors with limited possibility for media and civil society to monitor their activities and policy implementation, except when ECAs are subjected to access to information regulation.

Recommendations

Swedwatch has identified 12 key recommendations to align EU export credit policies with a low-carbon economy and to prevent and mitigate human rights and environmental impacts in export finance.

To the EU Commission:

Ensure ECA alignment with climate change mitigation goals

1. Promptly initiate a reform of the EU’s regulatory framework on the activities of ECAs, ensuring that they are aligned with the Paris Agreement 1.5°C climate change mitigation goals and the EU’s climate objectives.

2. If created, an eventual EU export credit facility should exclude all support to fossil fuel projects and adopt, as a minimum, the highest standards of national ECAs in terms of environmental and social due diligence. This is necessary to prevent an EU ECA from approving export deals that have been rejected by national ECAs on poor environmental and social grounds.

Just transition

3. Adopt regulations to introduce high standards of human rights and environmental due diligence for the activities of ECAs, for example, by extending the upcoming Corporate Sustainability Due Diligence Directive to ECAs.

4. A just transition approach should also focus on involvement of and benefits-sharing with communities, as well as avoiding unsustainable lending, instead preferring concessional loans and grants for infrastructure development in heavily indebted countries.

Beware of false solutions

5. Ensure that unproven and potentially counterproductive fossil-fuel based technologies do not receive favourable export finance support. Carbon capture and sequestration, carbon markets, hydrogen and ammonia are often purported as solutions to climate change, but these approaches can in fact increase dependence on fossil fuels and delay the phase out of coal, oil and gas.

6. Institute a Climate Council consisting of independent experts to assist policy development for EU export credits on the model of the Swedish experience (see textbox). A Council could also assist in developing specific policies for investments in the Global Gateway to evaluate and consider environmental, social and equity factors when developing climate change solutions through export finance.

Increase transparency and disclosure around the activities of export credit agencies

7. Require EU ECAs to disclose details about export deals beyond the requirements of the OECD Common Arrangement, including complete lists about the location, size and sector of deals (except in clearly defined cases of business confidentiality).
To the Council of the EU:

8 Act upon the objectives of the March 2022 Council Conclusions on officially supported export credits, ensuring that all Member States publicly disclose science-based plans for phasing out fossil fuels from export finance by the end of 2023, in accordance with the recommendations of best available climate science.

9 The current and future Council presidencies should take an active leadership role in this policy area, ensuring that Member States follow up on the commitments contained in the Conclusions, and to signal that the EU and Member States are ready to phase out international public finance to fossil fuels.

To the EU Parliament

10 Work with the Commission and the Council to align the activities of export credit agencies with EU climate and environmental commitments and with international human rights frameworks.

11 Adopt an own initiative report about European export credits, to send a strong political signal to other EU institutions about that export credits need to align to the EU climate objectives.

To EU national governments and the export credit agencies:

12 Adhere to and implement the commitments made under E3F and the Glasgow statement, and work to shift international financial flows towards a low-carbon economy, while safeguarding human rights, including through new national and EU regulation.
Endnotes


8 EKF Denmark’s Export Credit Agency, November 2021, EKF’s climate policy, https://www.ekf.dk/media/nmpecfmu/climate-policy_uk_final.pdf


Ministère de l’Économie, des Finances et de la Relance, 14 April 2021, Seven countries launch international coalition “Export Finance for Future” (E3F) to align export finance with climate objectives, https://www.tresor.economie.gouv.fr/Articles/2021/04/14/seven-countries-launch-international-coalition-export-finance-for-future-e3f-to-align-export-finance-with-climate-objectives; See also: https://www.linkedin.com/company/export-finance-for-future-e3f/about/


See, e.g.: ReCommon, 16 March 2023, SACE will have to hand over the documents related to gas projects in Mozambique, https://www.recommon.org/en/sace-will-have-to-hand-over-the-documents-related-to-gas-projects-in-mozambique/
Author: Davide Maneschi
Layout: Birgersson&Co, Åse Bengtsson Helin
Expert reader: Claudia Strambo, Stockholm Environment Institute (SEI)
Publisher: Alice Blondel
Published: 25 April 2023

This paper was authored by Swedwatch. The Swedish Society for Nature Conservation, Both ENDS, Re:Common and Oil Change International provided input to the text and the recommendations of the paper.

Supported by The Minor Foundation for Major Challenges. Responsibility for the content lies entirely with the creator.

Swedwatch is an independent not-for-profit organisation that conducts in-depth research on the impacts of businesses on human rights and the environment. The aim of the organisation is to contribute towards reduced poverty and sustainable social and environmental development through research, encouraging best practice, knowledge sharing and dialogue. Swedwatch has seven member organisations: Afrikagrupperna, Act Church of Sweden, Diakonia, Fair Action, Solidarity Sweden-Latin America, We Effect and the Swedish Society for Nature Conservation.