Global Stocktake Input on Best Practice in Aligning International Public Finance with the Paris Agreement

Topic: Means of Implementation and Support (Finance flows and financial support)

In response to Question (11:) What is the collective progress in terms of the current implementation of, and ambition in, making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development towards achieving the goal defined in Article 2.1 (c) of the Paris Agreement?

About Oil Change International:

Oil Change International (OCI) is a civil society organization that works to expose the true costs of fossil fuels and facilitate the ongoing transition to clean energy, through research, communications, and advocacy. OCI urges governments to deliver an equitable and managed phase-out of fossil fuel production in line with 1.5°C, with a just transition for workers and communities affected by this transition. Within OCI, the Global Public Finance team works specifically to determine best practice on aligning international public finance with the 1.5°C warming objectives of the Paris Agreement.

About E3G:

E3G is an independent climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

Executive Summary:

The Glasgow Statement, a joint commitment forged at the 26th Conference of the Parties in 2021, was signed by 34 countries and 5 public finance institutions, representing a joint commitment on international public support for the clean energy transition (referred to hereafter as the "Glasgow Statement")[1]. The initiative is currently **shifting an estimated $5.7 billion USD per year in public finance out of fossil fuels and into clean energy**, with the potential of an additional $13.7 billion directly shifted if all signatories fulfill their commitment.[2] This would in turn help catalyze an even larger public and private finance shift in support of the energy transition.

The Glasgow Statement presents an emerging best practice in aligning international public finance with the Paris Agreement as required in Article 2.1(c). The initiative does this through explicitly committing all signatories to end new direct public support for the international unabated fossil fuel energy sector within one year of signing the statement, except in limited and clearly defined circumstances that are consistent with a 1.5°C warming limit. Signatories also commit to use the

[1] The Glasgow Statement on International Public Support for the Clean Energy Transition (2021) (hereinafter the Glasgow Statement) http://bitly.ws/CejL

[2] Oil Change International, 'Promise Breakers,' March 2023, https://priceofoil.org/?p=41270

principles of the Glasgow Statement to guide their approach at the Multilateral Development Banks, prioritize their support fully for the clean energy transition, and encourage other governments and institutions to follow suit in order to stimulate a just transition. If all 39 signatories meet the Glasgow Statement commitment, clean energy finance can be increased to $37 billion per year. A sum that is sufficient to **close the clean energy finance access gap, estimated at $35 billion a year**.[3]

(I) Introduction

International public finance shapes our global energy systems, through providing government-backed financial services that de-risk investment and determine the landscape of our energy future. Yet, at present, most international public finance institutions have not taken the necessary measures to align their investment policies with the Paris Agreement. Research shows that from 2019 to 2021, G20 countries and the major multilateral development banks (MDBs) provided at least USD 55 billion per year in international public finance for oil, gas, and coal.[4] This fossil fuel finance was almost two times more than their support for clean energy, which averaged only $29 billion per year. This public money has an outsized influence determining the type of energy projects that are built. For every dollar going to the clean energy we need to build a just and liveable future, almost two times more is still flowing to fossil fuels.

Fossil fuel finance runs directly counter to global climate goals. The International Energy Agency is clear that, in order to maintain a 50% chance to limit global warming to 1.5°C, investing in new fossil fuel supply or Liquefied Natural Gas (LNG) infrastructure must be halted immediately, while public finance for affordable clean energy must be rapidly increased.[5] In line with the science, the UN Secretary General, Antonio Gutèrres, has called on countries to stop financing fossil fuels, saying: *"We can no longer afford big fossil fuel infrastructure anywhere. Such investments simply deepen our predicament. They are not even cost-effective."* Due to this COP 26 initiative, momentum is building on shifting public finance out of oil and gas, in addition to coal. Accelerating this momentum is critical to tip the global public finance for energy balance in favor of clean energy, and deliver on Article 2.1(c) of the Paris Agreement.

(II) The Role of the Glasgow Statement in upholding the Paris Agreement

At COP26, 34 countries and five public finance institutions signed the Glasgow Statement,- a joint commitment to end international public finance for fossil fuels and instead prioritize public finance for clean energy by the end of 2022. This is the first international political commitment that addresses not

[3] 'Global Roadmap for Accelerated SDG7 Action in Support of the 2030 Agenda for Sustainable Development and the Paris Agreement on Climate Change,' United Nations, November 2021
[4] OCI and Friends of the Earth United States, "At a Crossroads: Assessing G20 and MDB International Energy Finance Ahead of Stop Funding Fossils Pledge Deadline" available at: https://priceofoil.org/content/uploads/2022/11/G20-At-A-Crossroads.pdf
[5] International Energy Agency (2022) *World Energy Outlook 2022* https://www.iea.org/reports/world-energy-outlook-2022

only public finance for coal but also for oil and gas. With some of the largest providers of energy finance joining the commitment—including Canada, the United States, Italy, and Germany—the initiative sets a potentially transformative precedent. If all 39 signatories meet the Glasgow Statement commitment, $19.4 billion USD per year could be shifted from fossil fuels to clean energy,[6] and clean energy finance can be increased to $37 billion USD per year.

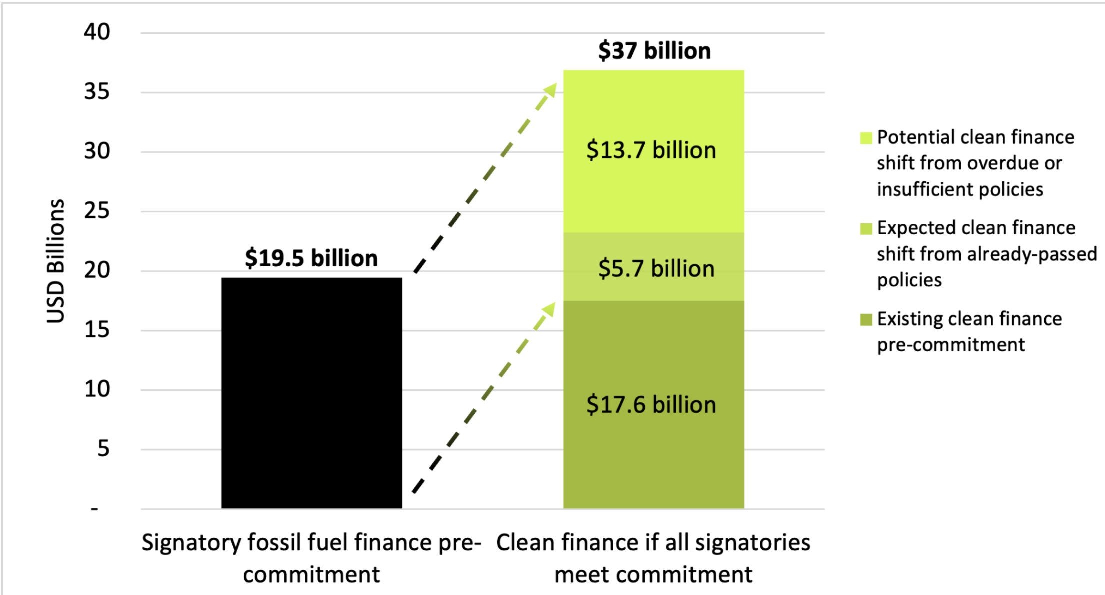
The Glasgow Statement applies to signatories' official Export Credit Agencies (ECAs), Development Finance Institutions (DFIs), countries' voting positions at Multilateral Development Banks (MDBs), and other public finance institutions. Of these institutions, the need to align ECAs proves most urgent, as Export Credit Agencies are on average the world's largest international public financiers of fossil fuels. From 2019-2021, G20 ECAs on average contributed $33.5 billion USD per year towards fossil fuel projects, **seven times the average amount for their renewable energy support**.[7] The Glasgow Statement marks the most ambitious initiative available in aligning ECAs with climate goals to date, and has catalyzed a movement to end export finance for fossil fuels at all levels, including multilaterally at the OECD.[8]

The Glasgow Statement implementation has already had considerable real-world impact. With the passing of the end-of-2022 deadline, **tangible progress has been made in shifting international public finance away from fossil fuels**. Out of 16 signatories that provide significant international public finance for energy, **eight** have new or existing policies that broadly meet the promise they made in Glasgow (Canada, the European Investment Bank, the United Kingdom, France, Finland, Sweden, Denmark, and New Zealand). This is shifting **$5.7 billion USD per year** out of fossil fuels and into clean energy, and is playing a concrete role in reaching Parties' commitments under Article 2.1(c) of the Paris Agreement.

In addition, data shows that fossil fuel exclusion policies adopted in the UK and at the European Investment Bank (EIB) that paved the way for the Glasgow Statement have been effective in bringing down global fossil fuel support. In 2021 international fossil fuel support halved compared to the previous three years. 27% of this drop can be explained by fossil fuel exclusion policies adopted by the EIB, the UK, along with coal power exclusions from China and the OECD Export Credit Arrangement.

[6] Oil Change International, 'Promise Breakers,' March 2023, https://priceofoil.org/?p=41270
[7] Friends of the Earth US and OCI (2022) *At a Crossroads Assessing G20 Energy Financ*e Available at: https://priceofoil.org/content/uploads/2022/11/G20-At-A-Crossroads.pdf
[8] Civil Society Joint Position on OECD oil and gas restrictions (February 2023) Available at:: http://bitly.ws/Cejt

Figure 1: Estimated international public finance shift out of fossil fuels and into clean energy from Glasgow Statement implementation policies.



Source: Public Finance for Energy Database (energyfinance.org) and 2022 report *Turning Pledges Into Action.* Based on OCI assessment of policies signatories' fossil free exclusion policies as of March 2023 and the average annual international public finance for fossil fuels for the three years prior to the commitment (2018–2020*). *Where data is limited or fossil fuel exclusion policies were already in place we have used different time periods as noted in Methodology. The expected and potential clean finance shift (a total of USD 19.4 billion) differs from the USD 28 billion figure quoted earlier in the 2022 Oil Change International / International Institute for Sustainable Development report Turning Pledges Into Action, as EDC's policy does not apply to its domestic export financing. Canada's policy is explained in more detail in Methodology

In addition to committing to ending international public finance for fossil fuels domestically, signatories have committed to encourage other governments and public finance institutions to follow suit, including by driving multilateral negotiations in international bodies, in particular at the OECD, to review, update and strengthen their governance frameworks to align with the Paris Agreement goals. For government signatories, this also applied to the countries' voting position on the boards of multilateral development banks. To further crystalize the implementation of Article 2.1(c) of the Paris Agreement, Parties can work towards ensuring a similar commitment is negotiated into the UNFCCC COP decision text in the near future.

(III) Relevance to the Global Stocktake

Recognizing the sizable impact that the Glasgow Statement has already made on aligning public finance flows with the Paris Agreement, the implementation of commitments in the Glasgow Statement represents an initiative that is the most ambitious of its kind. Countries are enhancing international cooperation for climate action, in pursuit of aligning international public finance with the necessary transformation in energy systems to shift away from fossil fuels towards renewable energy. These best practices of implementation are not only relevant for public finance, but have considerable implications for aligning all finance flows with low-emissions pathways as outlined in Article 2.1(c), including private finance. While public finance institutions' investments total **$2.2 trillion a year**: an estimated 10% of global financial flows,[9] their impact reaches beyond this financing as they de-risk private investment of large-scale energy projects. Thus, aligning public finance institutions' policies with a 1.5°C pathway plays a critical role in keeping the goals of the Paris Agreement within reach.

In addition to shifting international financial flows out of fossil fuels and into just and renewable energy, ending domestic fossil fuel subsidies is critical for implementing Article 2.1(c) of the Paris Agreement. According to the OECD, global fossil fuel production and consumption subsidies doubled to $697.2 billion in 2021, from $362.4 billion in 2020, while, at the same time, the fossil fuel industry is making record profits due to rising energy prices. The International Energy Agency (IEA) also demonstrated that in 2022, fossil fuel consumption subsidies rose to a record of over $1 trillion in 2022 amid the global energy crisis.[10] Yet, according to the UN Secretary General Antonio Gutèrres: "The fossil fuel industry is feasting on hundreds of billions of dollars in subsidies and windfall profits while household budgets shrink and our planet burns." Parties have an opportunity and responsibility to build on their efforts to end international finance for fossil fuels and, as a next step, collaborate on ending their domestic fossil fuel subsidies. This can allow billions to be redirected to ambitious climate action that will further enable Parties to reach their Paris Agreement goals.

Informing all Parties to the UNFCCC of the Glasgow Statement and its role in supporting the implementation of Article 2.1(c) of the Paris Agreement can contribute to an accelerated public finance shift. Parties can collectively increase ambition by sharing best practices and **taking the opportunity to sign on to the Glasgow Statement by or before COP28**. This initiative is especially relevant for Parties that continue to provide significant levels of public finance to fossil fuels, inconsistent with the 1.5C warming limit. The largest global financiers of fossil fuels that have not yet signed the Glasgow Statement include Japan ($10.6 billion a year between 2019 and 2021), Korea ($7.3 billion) and China ($6.7 billion). The Glasgow Statement complements parallel climate diplomacy initiatives focused on securing an equitable and managed phase-out of fossil fuels in line with the 1.5°C warming limit. These initiatives include the Beyond Oil and Gas Alliance (BOGA), focused on facilitating a managed phase-out of oil and gas production; the Powering Past Coal Alliance (PPCA) and Friends of Fossil Fuel Subsidy Reform.

(IV) The Role and Importance of Non-Party Stakeholders in raising ambition in aligning International Public Finance

Civil society actors play an instrumental role in ensuring governments sign onto climate initiatives that will support their path to aligning public policy with a 1.5°C warming trajectory, through advocacy and raising public awareness on best practice in climate mitigation, adaptation, and finance. Once these

[9] Oil Change International (2022) "Using international public finance to unlock a just energy transition" https://priceofoil.org/content/uploads/2022/04/Why-Public-Finance-for-Energy-Matters-2022-Briefing.pdf
[10] IEA (2023) "Fossil Fuel consumption Subsidies 2022" Available at: https://www.iea.org/reports/fossil-fuels-consumption-subsidies-2022

public commitments have been made, civil society actors play a key role in ensuring that governments are held accountable in the robust and timely implementation of their commitments.

To date, civil society networks following Glasgow Statement implementation closely have worked to hold governments accountable to implementing fossil fuel restrictions within their DFIs and ECAs. OCI has done this, with the help of a network of dozens of international partners, through continuously publishing a "Leaders and Laggards Tracker" which was updated throughout 2022 and early 2022 as new policies were announced.[11] More recently, OCI published a report which highlights best practice in implementation of the Glasgow Statement, while also holding accountable countries who have yet to implement their time-bound commitments. [12]

(V) Key Recommendations

Oil Change International outlines key recommendations to inform the Global Stocktake below, regarding how the best practice illuminated from implementation of the Glasgow Statement can be further elevated to ensure global public finance aligns with the Paris Agreement:

- All Parties to the United Nations Framework Convention on Climate Change must **sign on to the Glasgow Statement**, and implement robust oil and gas restrictions on international public finance institutions within 1 year of signing.

- Glasgow Statement signatories must work together under the UNFCCC process to draft and negotiate decisions text on **the implementation of the Paris Agreement Article 2.1(c)**, mandating that Parties align their public finance institutions to end new direct public support for the international unabated fossil fuel energy sector, except in limited and clearly defined circumstances that are consistent with a 1.5°C warming limit and the goals of the Paris Agreement, and shift their public finance to support just transition measures.

- In addition, Glasgow Statement signatories should ensure that **ending domestic fossil fuel subsidies** on a short time frame is part of implementing Article 2.1(c) of the Paris Agreement. This combined with shifting international finance flows frees up billions that can be redirected to a just transition towards fully renewable energy systems and broader climate action.

- All parties to the United Nations Framework Convention on Climate Change should adopt **just transition principles** to guide redirecting financial flows in a responsible manner and in line with 1.5°C and with human rights protection to guide the implementation of Article 2.1(c).

[11] Oil Change International, (2022) "Leaders & Laggards: Tracking implementation of the COP26 commitment to end international public finance for fossil fuels by the end of 2022" Available at: https://priceofoil.org/2022/10/07/leaders-laggards/
[12] Oil Change International, 'Promise Breakers,'(March 2023) Available at: https://priceofoil.org/?p=41270