

# Written evidence submitted by Global Witness

## to the International Trade Committee inquiry into UK Export Finance

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### Introduction to Global Witness

1. Global Witness is an international NGO that works to break the links between natural resource exploitation, conflict, poverty, corruption, and human rights abuses worldwide.

### Introduction & summary of evidence

2. Over recent years, UK Export Finance (UKEF) has received increasing public scrutiny of its support for fossil fuel projects abroad. This support has remained at a very high level, despite international criticism and growing reputational risks for the UK, its inconsistency with government climate goals, and the risk of undermining international development goals.
3. The committee must investigate UK Export Finance's climate policies (or lack of) and examine the robustness of current and future climate policies.
4. Given the importance of the COP26 United Nations Climate Conference in Glasgow in November 2021, and the potential for green exports to create new UK jobs, this should be a high priority for the committee.

### The scale of UK Export Finance support for fossil fuels

5. Fossil fuels have disproportionately benefited from UKEF's support. Research conducted by the Overseas Development Institute, CAFOD and others show that in the last measurable period, 99.4% of all UKEF's support for energy projects went to fossil fuels, with just 0.6% for renewable energy.<sup>1</sup> Between 2010-16, UKEF provided support worth £4.8 billion to fossil fuel projects.<sup>2</sup>

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<sup>1</sup> CAFOD, August 2017, 'Chaos for climate goals as figures show government spent twice as much on fossil fuels as renewables,' <https://cafod.org.uk/News/Press-centre/Press-releases/Fossil-fuel-v-renewables-spend>

<sup>2</sup> Uearthed / Private Eye, April 2017, 'Revealed: UK provides billions in credit to fossil fuel industry despite clean energy pledge,' <https://unearthed.greenpeace.org/2017/04/19/uk-trade-billions-export-finance-fossil/>

6. UKEF's activities recently show a similar pattern, with a study of UKEF's 2018/19 annual report suggesting that the agency had provided £2 billion in support to fossil fuels in 2018/19 alone, and just £700,000 to renewable energy.<sup>3</sup>
7. A Global Witness analysis of UKEF's 2019/20 annual report showed £761 million in support for fossil fuel projects, not including the recently-approved controversial Mozambique LNG project, for which UKEF support will be worth up to USD \$1.15 billion.
8. Other recent UKEF fossil fuel support has included a \$2 billion line of credit to Saudi Aramco, the world's biggest oil company<sup>4</sup>, fracking in Argentina, and an oil refinery in Bahrain. Some deals have raised questions, such as a 2013 £45 million UKEF loan to a Russian petrochemical company part owned by Vladimir Putin's son-in-law. One of the majority owners of the same company, Gennady Timchenko, was placed on the US sanctions list just months after UKEF provided the loan.<sup>5</sup>

### UKEF and UK climate targets

9. In order to hold climate change below internationally agreed levels, 80% of fossil fuels must stay in the ground.<sup>67</sup> In November 2018, the head of the International Energy Agency, said that keeping to climate targets means no new fossil fuel infrastructure can be built anywhere in the world – and yet, UK Export Finance has continued to provide massive support to new fossil fuel infrastructure.<sup>8</sup>
10. Export credit agencies like UKEF, with high credit ratings and government backing, are often a crucial tool for ensuring the completion of risky fossil fuel projects. They also send a signal to investors and leverage support from the private sector for fossil fuel infrastructure.<sup>9</sup> In this way, it is plain to see that UKEF's investments are not in line with Government commitments on climate change.
11. The UK Government cannot go on claiming to be a climate leader while supporting fossil fuels internationally, particularly as global financial institutions like the World Bank have now

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<sup>3</sup> The Guardian, June 2019, 'UK committed nearly £2bn to fossil fuel projects abroad last year,' <https://www.theguardian.com/environment/2019/jun/27/uk-spent-nearly-2bn-on-fossil-fuel-projects-overseas-last-year>

<sup>4</sup> Financial Times, November 2017, 'UK set to agree \$2bn loan guarantee for Saudi Aramco,' <https://www.ft.com/content/117c63ee-c4a4-11e7-a1d2-6786f39ef675>

<sup>5</sup> Unearthed, April 2017, 'Revealed: UK provides billions in credit to fossil fuel industry despite clean energy pledge,' <https://unearthed.greenpeace.org/2017/04/19/uk-trade-billions-export-finance-fossil/>

<sup>6</sup> Oil Change International, 'Australian Climate Commission – 80% of fossil fuels should stay in the ground,' June 2013, <http://priceofoil.org/2013/06/17/80-of-fossil-fuels-should-stay-in-the-ground/>

<sup>7</sup> Kyra Bos & Joyeeta Gupta, 2018, 'Climate change: the risks of stranded fossil fuel assets and resources to the developing world, Third World Quarterly, <https://www.tandfonline.com/doi/abs/10.1080/01436597.2017.1387477?journalCode=ctwq20&>

<sup>8</sup> The Guardian, 'World has no capacity to absorb new fossil fuel plants, warns IEA,' November 2018, <https://www.theguardian.com/business/2018/nov/13/world-has-no-capacity-to-absorb-new-fossil-fuel-plants-warns-iea>

<sup>9</sup> Oil Change International, 'Financing Climate Disaster – How Export Credit Agencies Are a Boon for Oil and Gas,' Pg6, <http://priceofoil.org/content/uploads/2017/10/Financing-Climate-Disaster.pdf>

committed to stop funding coal and upstream oil and gas. The European Investment Bank, the world's largest public bank, has also committed to ending all support for fossil fuels.<sup>1011</sup>

12. Even the UK Government's own climate advisors, the Committee on Climate Change, have highlighted UKEF as a problem, noting that 'export finance is not aligned with climate goals, and often supports high-carbon investments.'<sup>12</sup>

### **UKEF goals conflict with wider Government goals**

13. It is clear that the current pattern of support in UK Export Finance is not just contributing to climate change and locking developing countries into high-carbon development, but it is also undermining the work of other departments.
14. While the Department for Business, Energy and Industrial Strategy rolls out a 'Clean Growth Strategy,' aiming for a switch away from fossil fuels, and the Prime Minister claims that the UK is a climate leader, UK Export Finance undermines these initiatives with huge support for high-carbon development overseas.<sup>13</sup>
15. The climate aid work of various Government departments is also affected. The goals of the Department for International Development are undermined, as well as BEIS and the Foreign and Commonwealth Office, given their increasing involvement with delivering climate change-related projects overseas.
16. The evidence that climate change harms international development is well-established. Climate change is hitting the most vulnerable in poor countries first and hardest, and will continue to do so. 'Locking in' high-carbon development in developing countries will scupper any chance we have of keeping climate change to a manageable level.
17. The Department for International Development even has a toolkit on 'carbon-lock in.' Lock-in occurs when developing countries become committed to a high-carbon mode of development in a way that is difficult to reverse and likely to guarantee high carbon emissions for decades to come.<sup>14</sup> Ironically, the Department of International Trade, through UKEF is actually facilitating carbon lock-in by overwhelmingly backing fossil fuel projects in the developing world. The DFID toolkit features a detailed case study of carbon-lock-in in Nigeria and its negative effects. Meanwhile, UK Export Finance supported a £500,000 deal to supply equipment to a Nigerian oil

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<sup>10</sup> The World Bank, 'Q&A: The World Bank and Upstream Oil and Gas,' November 2017,

<https://www.worldbank.org/en/topic/climatechange/brief/qa-the-world-bank-group-and-upstream-oil-and-gas>

<sup>11</sup> European Investment Bank, November 2019, 'EU Bank launches ambitious new climate and energy strategy and energy lending policy,' <https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy>

<sup>12</sup> The Committee on Climate Change, May 2019, 'Net Zero – The UK's contribution to stopping global warming,'

<https://www.theccc.org.uk/wp-content/uploads/2019/05/Net-Zero-The-UKs-contribution-to-stopping-global-warming.pdf>

<sup>13</sup> Department for Business, Energy and Industrial Strategy, 'The Clean Growth Strategy – Leading the way to a low-carbon future,' October 2017, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/700496/clean-growth-strategy-correction-april-2018.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/700496/clean-growth-strategy-correction-april-2018.pdf)

<sup>14</sup> Gov.UK, January 2015, 'Carbon Lock-In Toolkit from the Department for International Development,' <https://www.gov.uk/dfid-research-outputs/carbon-lock-in-toolkit>

and gas company, actively facilitating the carbon lock-in that another Government department is warning against.<sup>15</sup>

18. The £4.8 billion total UKEF support for fossil fuel projects from 2010-16 is equal to the UK's total spend on its International Climate Fund for a similar period, 2011-17, which came to £4.9 billion.<sup>16</sup> While it's important to note that guaranteeing funds is not equivalent to investing funds, such guarantees (and other forms of support) at the very least influence financial flows, and in many cases UKEF support is the factor that enables investments to go ahead.
19. The current situation is that the UK government is providing climate aid with one hand, and exporting the UK's fossil fuel pollution with the other, all the while undermining its climate action credentials.

## Recommendations

20. Media reports suggest that the Government may soon change UK Export Finance policy to support for fossil fuels overseas.<sup>17</sup><sup>18</sup> If implemented, this would be a world-leading policy, and other countries would quickly follow suit. The Committee should question UK Export Finance and Ministers about when such an announcement will be made.
21. If a policy change occurs, the Committee should explore how those policy changes are to be implemented, and how UK Export Finance will interact with other high-carbon export sectors (aside from fossil fuels in the energy and petrochemical sectors).

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<sup>15</sup> Gov.UK, February 2018, 'Hull firm secures contract in Nigeria with UKEF and HSBC involvement,' <https://www.gov.uk/government/case-studies/hull-firm-secures-contract-in-nigeria-with-ukef-and-hsbc-support>

<sup>16</sup> Carbon Brief, October 2017, 'Mapped – how UK foreign aid is spent on climate change,' <https://www.carbonbrief.org/mapped-how-uk-foreign-aid-is-spent-climate-change>

<sup>17</sup> The Times, July 2020, 'PM cleans up UK's reputation on environment by defunding foreign oil projects,' <https://www.thetimes.co.uk/article/pm-cleans-up-reputation-by-defunding-foreign-oil-projects-vt68ldk8>

<sup>18</sup> The Guardian, August 2020, 'Boris Johnson poised to stop UK funding overseas fossil fuel projects,' <https://www.theguardian.com/environment/2020/aug/12/boris-johnson-poised-to-stop-uk-funding-overseas-fossil-fuel-projects>