

Submission in response to the Inquiry by the UK's International Development Committee: Climate change, development and COP26

Dear sir or madam:

I am writing to you on behalf of the Natural Resources Defense Council (“NRDC”), an international nonprofit environmental organization with more than 3 million members and online activists. Since 1970, our lawyers, scientists, and other environmental specialists have worked to protect the world's natural resources, public health, and the environment. We are writing in response to your Inquiry into the Government's progress on implementing [the Committee's recommendations](#), particularly those on climate finance, climate justice, the use of ODA to support fossil fuels and making climate change a strategic priority in all aid spending.

Our assessment is that while the UK has made progress on your previous recommendations, unfortunately, the full policy released in March 2021 has several [significant loopholes](#) that allow for continued public financing of fossil fuels. These loopholes will allow:

- “tightly limited” support for gas-burning power generation projects;
- Investments by the UK development bank CDC Group in gas power generation and directly associated transmission infrastructure. Analysis by CAFOD suggests that 90% of CDC's \$675 million portfolio of *direct* fossil fuel investments would still be allowed under this policy, with further support potentially being given indirectly through managed private equity funds;
- Gas power investments made by institutions in receipt of UK aid, such as the Private Infrastructure Development Group (PIDG) which receives 75% of its funding from the UK government.

We urge the UK government, as the host of COP26, to close these loopholes and truly end UK public financing of fossil fuels via the aid budget, once and for all. Otherwise, we believe that the UK's ambitions and efforts to limit global warming to 1.5 degrees will be severely undermined. We urge the UK government to ensure that:

- **Restrictions cover all forms of fossil fuels without loopholes:** The latest data on fossil gas (particularly LNG and its high life-cycle emissions and methane leaks) makes clear that public finance should not support gas projects. However, these loopholes allow for huge potential future investment in gas. The reasoning for the exemptions—that loopholes would be rarely used and that gas power could be a greener alternative to coal and oil—are false.¹ We urge the UK government to close the loopholes for gas projects, as these efforts are expensive, inefficient, and potentially counter-productive subsidies that can hinder global decarbonization efforts.
- **The scope of institutions must be comprehensive:** We applaud the UK for having broad institutional coverage in the new policy. However, we encourage the government to ensure these rules cover all sources of support, including support from the CDC Group PLC and the Private Infrastructure Development Group (PIDG) which receive UK government funding. **Right now, over 90% of the value of CDC's current direct investments in fossil fuels would be allowed under its current policy.** The PIDG's fossil fuel commitments (\$781.5

¹ Oil Change International, *Burning the Gas 'Bridge Fuel' Myth: Why Gas Is Not Clean, Cheap, or Necessary* (2019). Available at: <http://priceofoil.org/2019/05/30/gas-is-not-a-bridge-fuel>.

million to fossil fuel power and \$138 million to gas transportation, distribution and storage) would be unchecked.² As the primary donor, the UK must ensure CDC and PIDG stop financing fossil fuels in order to mitigate against the effects of climate change. Ending financing for fossil fuels must be a whole of-government effort.

- **The policy must include a divestment strategy:** Currently, neither the UK policy or the one put forth by the CDC commits to divestment from existing investments in fossil fuel projects. UK institutions already financed fossil fuel investments in the past, so **a strategy for removing these investments from the public balance sheet must be implemented as soon as possible.**

In July 2019, the International Development Committee noted the inconsistency of the Government both sponsoring climate aid, and spending billions on fossil fuel projects abroad. The Committee noted, “supporting the fossil fuel economy in developing countries damages the effectiveness of the UK’s approach to combating climate change and this should be rectified urgently”.³ **The current exemptions mean that this inconsistency has not been rectified.** The new policy, which only ‘influences the investment policies’ of CDC Group and PIDG, allows for dangerous loopholes that continue to harm the climate and prevent the success of any climate finance spending.

A strong policy from the UK is an important signal for the United States and other nations currently in the process of revising their own international finance policies. President Biden’s President Biden’s *Executive Order on Tackling the Climate Crisis at Home and Abroad* already indicates that aligning financial flows with the Paris Agreement is a priority for the new US administration, especially developing a plan to move “away from high-carbon investments” and for “ending international financing of carbon-intensive fossil fuel-based energy.” We urge the UK government to close the loopholes listed above, so that other nations can follow your lead, avoid dangerous loopholes in policy, align financial flows with the aims of the Paris Agreement, end fossil fuel finance, and build new partnerships for clean energy and sustainable infrastructure collaboration overseas.

Sincerely,



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NATURAL RESOURCES DEFENSE COUNCIL

² See <https://www.pidg.org/wp-content/uploads/2020/09/PIDG-Annual-Review-2019-digital-Final.pdf>.

³ International Development Committee, ‘Major change in Government aid strategy needed to tackle Global Climate Emergency,’ (2019). Available at: <https://www.parliament.uk/business/committees/committees-a-z/commons-select/international-developmentcommittee/news-parliament-2017/uk-aid-for-combating-climate-change-report-publication-17-19/>.