

Written evidence submitted by ODI
to the International Development Committee inquiry:

‘The International Development Committee has launched an inquiry examining, ahead of COP26 in November, the progress the Government has made putting climate change at the centre of aid policy.’

1. ODI is a leading global affairs think tank. We inspire people to act on injustice and inequality. We focus on research, convening and influencing, to generate ideas that matter for people and planet. Find out more about ODI and our new strategy here: odi.org/en/about/
2. This submission draws upon expertise from ODI’s Climate and Sustainability Programme and Global Risks and Resilience Programme and will focus on the following areas:
 - a. International climate finance
 - Releasing the new strategy
 - Sustaining levels of international climate finance
 - Improving reporting of climate finance
 - b. Fossil fuel subsidies
 - Improving reporting through using international standards
 - Phasing out support in line with recent commitments
 - Impact of continued UK investment in Fossil fuels
 - Alternatives to Fossil Fuel Subsidies

International Climate Finance

Both the IDC and ICAI review looking at UK International Climate Finance (ICF) called for a strategy refresh. The government has agreed based on the conclusions of both these reviews. However, no progress has been made towards creating a strategy for ICF spending, that could help build coherence across the UK aid portfolio with respect to climate change. Releasing this new strategy before COP26 would send strong signals on the UK's post 2020 climate finance and could build on its UNFCCC Article 9.5 submission on ex-ante climate finance.

The UK Spending Review resulted in a doubling of monetary commitment to climate finance, including a doubling of support to the Green Climate Fund. This should certainly be celebrated however it is important that this funding is not lost because of UK aid cuts.

The UK is talking more meaningfully about the loss and damage associated with the impact of climate change and finding practical solutions, as called for in the IDC review. It is good to see that this is specifically mentioned in the public finance priorities for COP, for example. This is important as climate finance discussions have historically been separated from loss and damage deliberations. Supporting communities at greatest risk from climate emergencies and related insecurities should be central to the UK’s climate finance discussions.

Greater transparency and improved reporting also needs to be key to the UK’s ongoing climate strategy. The UK government denies that it provides *any* fossil fuel subsidies.¹ However, using the definition of subsidies agreed by the 153 members of the World Trade Organization (WTO), including

¹ UK Parliament (2017a) ‘Fossil Fuels: Tax Allowances: Written question - 63181’, 6 February 2017. (<http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2017-02-06/63181/>)

UK Parliament (2017b) ‘Fossil Fuels: Subsidies: Written question - 63284’, 6 February 2017. (<http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2017-02-06/63284/>)

the UK, it is clear the UK provides subsidies for the production and consumption of fossil fuels, both at home and abroad.

Fossil Fuel Subsidies

ODI and CAFOD's recent report *Assessing UK International Climate Finance actions against the Global Goal on Adaptation*² looked at the progress that the UK is making towards climate change adaptation and whether the UK's climate finance is successfully supporting this.

The UK is one of the world's leading providers of climate finance and the co-host of the 2021 UNFCCC climate negotiations (COP26), so its approach to reporting on climate finance is particularly important. However, the report found that public reporting on climate change adaptation by the UK's ICF is not in line with the level of funding being committed.

The UK government's Development Tracker web portal is deficient as a public reporting tool for programme-level information that would demonstrate ICF's contribution to the Global Goal on Adaptation (GGA).

A longstanding emphasis on the value-for-money metric appears to have come at a cost of far less attention being given to the metrics of equity, subsidiarity, equitable participation, 'do no harm', and environmental sustainability in ICF climate investments.

The report made several recommendations, including:

1. Public reporting and knowledge management need significant and immediate improvement for ICF-funded programmes. The UK government should undertake a rapid review of how the ICF currently reports, and should then develop a strategy for improved visibility of its funded actions for climate change adaptation.
2. The ICF Key Performance Indicators (KPIs) should be subject to external evaluation to determine whether they are fit for purpose. This paper's assessment is that the present KPIs cannot be used to assess the UK's contribution to the GGA.
3. A separate web portal to the Development Tracker portal should be created for the ICF, with each funded programme fully documented. This would make the wealth of knowledge gained through the considerable analytical work financed by the ICF readily accessible for lesson learning and public scrutiny. With internet access improving globally, such a portal would help strengthen accountability to the direct beneficiaries of ICF investments.

Greater progress is needed on ending UK support for fossil fuels

Despite its international commitments and calls to end subsidies, the UK government continues to provide high levels of support towards fossil fuels and fossil fuel-powered energy, both at home and abroad.

In December 2020, at the virtual Climate Ambition Summit, co-hosted with the UN and France and in partnership with Italy and Chile, Prime Minister Boris Johnson announced that the UK Government will end direct support for fossil fuel projects overseas "with very limited exceptions". This was a major step in putting climate change at the centre of aid policy. But defining and being very strict around the "limited exceptions" that are to be provided to this new policy will be critical.

Moreover, the UK must start phasing out support for the extensive list of fossil fuel projects it has financed in the past years. Until now, the UK's international public finance institutions, including UK Export Finance (UKEF), and Commonwealth Development Cooperation (CDC), as well as other government branches such as FCDO, have continued to finance fossil fuels abroad.

² Bird, N. (2020). *Assessing UK International Climate Finance actions against the Global Goal on Adaptation*
<https://odi.org/en/publications/assessing-uk-international-climate-finance-actions-against-the-global-goal-on-adaptation/>

The UK's export credit agency; UKEF, provides a substantial amount of this support towards the production and consumption of fossil fuels abroad, including their exploration and extraction.³ Between 2010 and 2018, UK Export Finance (UKEF) supported energy sector exports with a total value of £3.9 billion. 97% of these energy exports were for the production and consumption of fossil fuels.⁴ Less than 1% of the support provided during this period can be identified as for renewable energy.⁵ UKEF supported energy exports to 54 countries. Upper-middle-income countries accounted for almost three-quarters (74.3%), while lower-middle-income countries received 19%. Negligible support went to energy developments in low-income and least developed countries. Ten countries accounted for more than 95% of the total value of UKEF's exports. These countries are: Brazil, Russian Federation, Ghana, Vietnam, Iraq, United Arab Emirates, Philippines, India, Singapore and Norway.⁶

More recently, another study found that UKEF gave GBP 2 billion (USD 2.6 billion) to fossil fuels in the 2018- 2019 UK fiscal year alone, a record year for UKEF financing, and an eleven-fold increase in fossil fuel support from the previous fiscal year.⁷

The UK is providing around USD1 billion for a natural gas project in Mozambique, led by Total. The construction alone will see Mozambique's emissions increase by 10% by 2022, and the project will have numerous environmental and social negative consequences.⁸ We are already seeing the ramifications. Following recent escalation of violence, Total has recently called force majeure and halted its plans around the gas plant, which further questions UK's involvement in the project.⁹ Mozambique has huge renewables potential, through hydro but also wind and solar energy generation, which would benefit from foreign investments and financing.

All European countries had committed to end coal mining by 2018, and the UK has also committed to phase out coal-fired power by 2025. UKEF continued to provide guarantees and loans for coal mining until 2016.¹⁰ No support by UKEF for coal has been identified since then.¹¹ The UK must ensure that the government's commitment to end direct support for fossil fuel projects overseas is upheld. Support for existing fossil fuel projects, both at home and abroad, needs to be phased out.

Impact of continued UK investment in fossil fuels overseas

Fossil fuel combustion is the source of two-thirds of the world's greenhouse gas emissions, which leads to dangerous climate change.¹² Increasing climate variability and climate change are resulting in a higher frequency of extreme weather events and placing additional stress on livelihoods, both of which affect the world's poorest and the resources and systems on which they depend.

Fuel combustion from motor vehicles (e.g. cars and heavy duty vehicles), heat and power generation (e.g. oil and coal power plants and boilers), and industrial facilities (e.g. manufacturing factories,

³ Worrall, L. (2018). UK – G7 Fossil Fuel Subsidy Scorecard. <https://www.odi.org/sites/odi.org.uk/files/resource-documents/12215.pdf>

⁴ Scott, A. and Murali, M., (unpublished). Research for CAFOD on the UKEF support for energy 2010-11 to 2017-18.

⁵ Scott, A. and Murali, M., (unpublished). Research for CAFOD on the UKEF support for energy 2010-11 to 2017-18.

⁶ Scott, A. and Murali, M., (unpublished). Research for CAFOD on the UKEF support for energy 2010-11 to 2017-18.

⁷ See Simon Roach and Richard Collett-White <https://www.desmog.co.uk/2019/06/27/ukey-fossil-fuelsupport-2bn-2018-2019>

⁸ Friends of the Earth, 2021. [Mozambique gas project: Friends of the Earth asks for oral court hearing over government support | Friends of the Earth](#)

The Guardian, 2021. [UK support for Mozambique gas plant fuelling conflict – Friends of the Earth | Global development | The Guardian](#)

⁹ Total, April 2021. [Total declares Force Majeure on Mozambique LNG project | total.com](#)

¹⁰ Worrall, L. (2018). UK – G7 Fossil Fuel Subsidy Scorecard. <https://www.odi.org/sites/odi.org.uk/files/resource-documents/12215.pdf>

¹¹ Scott, A. and Murali, M., (unpublished). Research for CAFOD on the UKEF support for energy 2010-11 to 2017-18.

¹² IPCC, 2014: Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)]. IPCC, Geneva, Switzerland.

mines, and oil refineries) is also the main cause of ambient (outdoor) air pollution.¹³ An estimated 4.2 million premature deaths globally are linked to ambient air pollution, mainly from heart disease, stroke, chronic obstructive pulmonary disease, lung cancer, and acute respiratory infections in children.¹⁴ 91% of the world's population live in places exceeding World Health Organisation (WHO) air quality guidelines.¹⁵

Subsidies prop up sectors and businesses which would no longer be viable without this support. In the case of UKEF support, they facilitate exports that would not otherwise take place. They prolong the life of outdated infrastructure such as coal mines, coal- and gas-fired power stations, oil refineries and related energy transmission systems. Continuing to subsidise fossil fuel-based development increases the risk of stranded assets¹⁶ and leads to carbon lock-in¹⁷ that commits countries to polluting energy systems. The increased stranding of fossil fuel infrastructure is also likely to increase the cost of transition in the future. It can result in investor-state disputes, large financial claims, and associated legal costs, by their investors. These types of cases and costs are expected to increase.

Potential alternatives to fossil fuel subsidies

The support provided for fossil fuels should instead be channeled into building clean energy systems and climate-compatible infrastructure.

Currently, subsidies provide the wrong signals to energy markets and investors, obstructing the creation of a level playing field for emerging renewable technologies which could provide the same energy services.

In recent years, electricity systems have seen a rapid increase in the share of renewable, often decentralised electricity production, driven by decarbonisation objectives and policies and a sharp reduction in the cost of renewable energy technologies. The cost of these new technologies has become competitive with fossil fuels in many countries, despite the continuing levels of subsidies that fossil fuels receive.¹⁸ Eliminating fossil fuel subsidies will result in a faster transition to clean energy systems.

It is important to consider the impact on workers and communities who will transition away from fossil fuel use. Any remaining government support should be directed to supporting this transition. It is not just governments who are responsible for this, companies and other key stakeholders also have a key role to play.

¹³ World Health Organisation (WHO), 2018. Ambient Air Pollution. <https://www.who.int/airpollution/ambient/en/>

¹⁴ World Health Organisation (WHO), 2018. Ambient Air Pollution. <https://www.who.int/airpollution/ambient/en/>

¹⁵ World Health Organisation (WHO), 2018. Ambient Air Pollution. <https://www.who.int/airpollution/ambient/en/>

¹⁶ Subsidies for fossil fuel energy increase the risk that the related infrastructure will become uneconomic as a result of regulatory changes introduced to address climate change.

¹⁷ Carbon lock-in: once certain carbon-intensive development pathways are chosen and capital-intensive investments are made, fossil fuel dependence and the carbon emissions that come with it can become 'locked in', making a transition to lower-carbon development pathways difficult and increasing the risk of exceeding climate limits. Erickson, P., 2015. 'Carbon lock-in from fossil fuel supply infrastructure'. Seattle, WA: SEI.

<https://www.seiinternational.org/mediamanager/documents/Publications/Climate/SEI-DB-2015-Carbon-lock-in-supply-side.pdf>

¹⁸ van der Burg, L., Whitley, S. (2016) 'Rethinking power markets: capacity mechanisms and decarbonisation'. London: Overseas Development Institute. (<https://www.odi.org/sites/odi.org.uk/files/resource-documents/10569.pdf>)