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International Development Committee inquiry into climate change, development and COP26

Friends of the Earth England, Wales and Northern Ireland submission

Friends of the Earth England, Wales and Northern Ireland (hereafter Friends of the Earth) welcomes the committee's inquiry into this vital issue.

Our submission focuses on the first of the issues that the Committee is considering: the extent to which the Government has made 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.

Friends of the Earth welcomes the progress that the government has made in recent months to end the financing of fossil fuel projects overseas, and so to stop aggravating the climate emergency. This has been a clear indication that the government is finally waking up to the disastrous impact that such financing can have.

However this progress relates only to export credit finance and does very little to restrict the use of ODA in funding fossil fuels. The government's new policy, announced in March 2021, contains exclusions which allow 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. CDC Group has a portfolio of fossil fuel investments worth approximately $988 million as of December 2019.

Similarly exempt is the Private Infrastructure Development Group (PIDG), a London-based institution to which the UK is the largest donor. PIDG has received $1 billion in ODA since 2002, and between 2002-2018 spent $749.8 million on fossil fuels[1].

Despite the recent policy changes, the many examples of recently CDC- or PIDG-supported fossil projects wouldn't be excluded, including Nigeria's Qua Iboe gas-fired power plant[2], Mozambique's Temane gas-fired power plant[3] and Ghana's Tema LNG facility.

In July 2019, the International Development Committee noted the inconsistency of the Government providing climate aid with one hand, and spending billions on fossil fuel projects abroad with the other. 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".[4]

However exemptions in the government's new policy mean that it only "influences" the investment policies of CDC Group and PIDG.

Despite claiming to have an arm's length relationship with CDC, the UK government is CDC's only shareholder, CDC has its own minister in government, and the UK has provided CDC with

[1] https://www.globalwitness.org/en/campaigns/climate-breakdown/aid-who/
[2] https://www.globeleq.com/operations/#projects
[3] https://www.globeleq.com/blog/funding-approvals-and-epc-selection-moves-mozambiques-temane-power-project-forward/
[4] International Development Committee, 'Major change in Government aid strategy needed to tackle Global Climate Emergency,' (2019). 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/.

approximately £4.3 billion in capital since 2015. Therefore, the government can and must end fossil fuel financing by CDC. Not doing so perpetuates the funding of fossil fuel projects overseas that the government has committed to ending.

As the single largest donor, the UK also has a high degree of control over the activities of PIDG. Of the $781.5 million committed to fossil fuel power since its formation, PIDG has spent $138 million on gas transportation, distribution and storage.[5] PIDG's current climate plans allow for a continuation of gas power projects.[6] Again, the UK must use this position to ensure that PIDG stops financing fossil fuels.

The government claims that the exemptions will only be used in limited circumstances. But over 90% of the value of CDC's current direct investments in fossil fuels would still be allowed under the current policy. It also claims that gas power can be a greener alternative to coal and oil. But it has been shown that gas power will lock in high carbon emissions for generations to come, breaking the carbon budget and guaranteeing higher levels of global warming.[7]

UK aid is a powerful force for global good. However, while its purpose is to help reduce poverty, a large amount of Official Development Assistance spending fuels climate change and drives more people into danger from climate impacts. Development experts suggest that to stop further climate breakdown and meet energy access needs the UK should focus on renewable energies. Experts have also pointed to the inertia of financing mechanisms and the strong promotional strategies of oil and gas companies as negative factors in funding of renewable energies.[8]

Recommendations:

- All forms and pathways of ODA-support for fossil fuels should be ended. Official Development Assistance covers a multitude of different forms of support – i.e. research and development as well as financial support - and is distributed via different funds and institutions - including CDC and PIDG. Support for fossil fuel projects should be ended across all these variations.

- The impact of any policy ending future investment in fossil fuels overseas will be limited if the lack of a divestment strategy for current investments means that the UK government continues to hold investments in fossil fuels overseas long into the future. The investment terms of all current fossil fuel investments held by UK institutions and institutions in receipt of UK ODA should be disclosed, and all existing non-compliant investments should be divested from in the earliest possible time frame. An active time-bound divestment policy must be enacted to withdraw funds from institutions that fund fossil fuels as soon as possible.

  In addition to ruling out any future CDC funding of fossil fuel projects, the government must also commit to divesting from existing CDC fossil fuel investments and set a timetable for this process.

- Public financing of the Industrial use of fossil fuels should be ended - clarity and tightening up is needed with regard to the use of ODA to support the industrial use of fossil fuels, for example in fertiliser, cement, steel and petrochemicals, which are heavily reliant on fossil fuels.

[5] See https://www.pidg.org/wp-content/uploads/2020/09/PIDG-Annual-Review-2019-digital-Final.pdf.
[6] https://www.pidg.org/wp-content/uploads/2020/07/Spotlight-Taking-action-on-climate-change.pdf
[7] 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.
[8] https://www.devex.com/news/should-aid-be-used-to-fund-fossil-fuel-investments-96624

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Analysis shows that that the reserves in currently operating oil and gas fields alone (excluding coal, land use and cement), would exceed the 1.5°C target enshrined within the Paris Agreement[9]. UK ODA spending is currently out of step with reaching this target. COP26, and the submission of revised Nationally Determined Contributions, will focus the world's attention onto the degree of progress towards to the 1.5°C target. As COP26 hosts, our investments and climate record will be under scrutiny and risk undermining the UK's leadership of the conference. Alternatively, the UK has an opportunity to set the gold standard in ending public financing of fossil fuel projects for the rest of the world.

Your sincerely
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[9] http://priceofoil.org/2016/09/22/the-skys-limit-report/