

To whom it may concern:

As an organization, Milieudefensie (Friends of the Earth Netherlands) submits the following comments in response to the open consultation of the government of the United Kingdom on “Climate Change, Development and COP26”.

Milieudefensie (Friends of the Earth Netherlands) is a Dutch environmental organization that strives for a clean, healthy, sustainable, and fair world.

General

Milieudefensie welcomes the commitment made in March 2021 of the UK Government to halt public finance for fossil fuels abroad. In this climate crisis, ending public finance for fossil fuels is an obvious and crucial move forward, and as such the UK is showing itself a pioneer and leader. While Milieudefensie recognises the progress made by the International Development Committee (IDC) to end the use of UK aid to support fossil fuels, significant policy loopholes remain. The existing loopholes undermine the ambition and effort of the Government to align policy with 1.5C of warming.

The new government-wide policy that was announced in March 2021 allows for the continuation of support for gas-fired power and would not apply to all support provided indirectly through financial institutions. The policy also fails to address support related to industrial or consumer use of fossil fuels and does not affect current non-compliant investment commitments. The new policy also does not address infrastructure that supports the fossil fuel industry.

Policy incoherence

Policy incoherence in the UK’s overseas fossil fuel finance was first established by the International Development Committee in July 2019 when a report of the Committee found that the provision of climate aid on the one hand and spending of billions on fossil fuel projects on the other hand was contradictory and should be rectified urgently. Due to the significant loopholes still present in the new policy, this issue has not been rectified and the existing inconsistencies in the policy remain. Next to fueling climate change, this policy inconsistency also interferes with achieving the sustainable development goals (SDGs).

The current exemption namely only ‘influences investment policies’. All countries, including the UK, should apply their national climate commitments to foreign policy to achieve the commitments made in the Paris Agreement. If countries fail to do this, global inequities will be exacerbated as it puts countries in the Global South that are already struggling with climate change effects, at further economic, environmental, climate and human rights risk by increasing their fossil dependence for the benefit of UK companies’ profits.

CDC

The policy of the UK Government should apply immediately and in full to all investments through UKEF, the CDC Group, and the Private Infrastructure Development Group (PIDG). Although the UK Government claims to have an arm’s length relationship with CDC, the Government is the sole shareholder and CDC is represented in government with its own minister. The portfolio of fossil fuel investments by CDC are worth approximately 988 million as of December 2019. In 2019, fossil fuels

accounted for 85% of the total electricity generated and distributed through CDC investments¹. CDC Group also has further unquantified exposure to fossil fuels through non-power but fossil fuel-related direct and managed fund investments (for example in cement, fertiliser, transport and telecoms), and through its investments in financial institutions.

Therefore, the government has the means and the force to enforce an absolute moratorium on fossil fuel finance on CDC Group. As the Government has provided 4.3 billion pounds of capital to the group since 2015, this will have a significant impact in reducing the UK's support for fossil fuels.

PIDG

The UK Government should enforce the same policy for the Private Infrastructure Development Group. As the single-largest donor, the UK also has a high degree of control over the activities of PIDG. The organisation is responsible for \$781.5 billion of commitments to fossil fuels power and \$138 million to gas transportation, distribution and storage.

Gas is not a transition fuel

Although the UK Government claims current exemptions for fossil fuels will be limited, 90 per cent of the value of the CDC's current direct investments in fossil fuels would be allowed under the current policy. In addition, the Government claims that gas can be used as a transition fuel as it could be a greener alternative to coal and oil. While the consultation document states that the UK will provide "limited international support for gas-fired power plants and associated infrastructure (such as gas transport, storage and distribution) only if the country where the project is located has a credible emissions reduction plan in line with the Paris Agreement, the project does not delay or diminish the transition to renewables, and the project is not at risk of stranding assets", the CDC gas power guidance states that "the absence of a long-term decarbonisation plan is not considered as an indication of misalignment at this point, given the majority of countries have not yet developed long-term decarbonisation plans", and that "as of today, where a long-term decarbonisation plan does not exist, we will not take this indicator (Paris pathway development) into account, given this is the case in most countries."

Milieudefensie believes it is of the utmost importance to exclude support for all fossil fuels - including liquefied natural gas (LNG). Expansion of gas demand is incompatible with a 1.5C pathway. The UK Government should recognize that the IPCC indicates that to stay below 1,5C degrees of warming, the electricity sector needs to decarbonize rapidly and be emission-free by 2050. Methane is released during the production of natural gas. In twenty years', time, methane will cause 86 times more warming than CO2. It is therefore only necessary to leak 1 to 3 percent of methane to affect just as harmful as when coal is burned. Research by Stanford University shows that an average of 5.4% methane leaks during gas production and that the technologies to combat methane leakage are only 15-75% effective. Even if methane leakage could be reduced to zero, the climate impact of natural gas would still exceed the carbon budget that is needed to achieve the climate goals².

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See

<https://cafod.org.uk/content/download/53340/746955/version/1/file/CDC%20energy%20investments%20briefing%20final%2013%200920.pdf>. Information on CDC's total fossil fuel investment values is only available in US dollars.

² IPCC, 2018: Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty [Masson-Delmotte, V., P. Zhai, H.-O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J.B.R. Matthews, Y. Chen, X. Zhou, M.I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, and T. Waterfield (eds.)]. In Press., p.95

It is not acceptable to extend the lifespan of fossil fuel-based projects. Leapfrogging in access to energy is an important opportunity for developing countries. In the case of energy supply, there is the possibility to skip the step from traditional forms of energy (wood, charcoal, manure) to using fossil energy, and instead switch directly to renewable energy and technologies. It should be noted that renewable energy produced through off-grid and mini-grid wind and solar installations – called ‘distributed renewable energy’ – has consistently been identified as the most effective, affordable way to deliver electricity services to rural areas without access to the national grid³. It reduces the risk of lock-in and economic debt, strengthens energy ownership ensures better and broader access to energy, which in turn contributes to sustainable development and overall resilience. Many development countries have significant potential when it comes to solar and wind energy; potential that is not able to take off due to the ongoing and new fossil investments, which have an undermining effect. This is for example the case in Mozambique, where the fossil support for the gas developments (including by ECAs) has undermined the development of the country’s abundant RE potential. Meanwhile, the fossil developments have spurred human rights abuses; loss of community lands and livelihoods without adequate compensation; and an escalating violent conflict resulting in many being killed, the targeting of critical journalists and NGOs, gender violence and half a million people seeking refuge from the violence.

Divestment

Another loophole that can be identified in current policy is that there is no plan for divestment from the existing investments in fossil fuel projects. Neither the whole of government proposal, nor the CDC policy, makes a commitment to divestment from existing investments in fossil fuel projects. All existing non-compliant investments should be divested as soon as possible to avoid lock-in.

Financial institutions

CDC's new policy states that financial institutions with fossil fuel exposure will continue to be considered eligible for investment "subject to us seeking credible evidence that the recipients of the investments are working towards aligning future activities and portfolios with the Paris Agreement", and that trade finance activities for refined energy products would also be permitted.⁴

This limitation seems unlikely to influence future investment decisions in any meaningful way. As of December 2019, financial services represented 25% of CDC’s total portfolio, second only to infrastructure (28%). By sector, financial services represented over half (£887.3m) of CDC's total investment commitments in 2019 (£1,657.2m). Of this amount, over 90% (£825.9m) were commitments to financial institutions involved in financing fossil fuel-related activities to some extent.⁵

³ <http://priceofoil.org/2020/07/21/distributed-renewable-2020/>

⁴ See pages 6-7: https://assets.cdcgroup.com/wp-content/uploads/2020/12/12150401/CDC-fossil-fuel-policy_December-2020_FINAL.pdf.

⁵ See <https://cafod.org.uk/content/download/53340/746955/version/1/file/CDC%20energy%20investments%20briefing%20final%20130920.pdf>.