

## **Written evidence submitted by Oil Change International to the International Development Committee Inquiry on effectiveness of UK aid**

Submitted 12 May 2020

1. This evidence is submitted on behalf of Oil Change International, a research and advocacy organisation that aims to facilitate and accelerate the transition of our energy systems from fossil fuels to clean energy. Oil Change International works with governments, investors, companies and civil society to help align energy decisions with climate limits.
2. The UK's aid effectiveness is undermined by continued ODA and non-ODA investments in fossil fuel projects overseas. Such investments exacerbate climate change, are not effective in meeting development objectives. In its July 2019 report into UK aid for combatting climate change, the International Development Committee noted the inconsistency of the government providing climate aid whilst at the same time investing in fossil fuel projects abroad. The Committee highlighted the case of the export credit agency UK Export Finance (UKEF), which between 2010 and 2016 provided support worth 4.8 billion pounds to fossil fuel projects compared to a total spend of 4.7 billion pounds on the International Climate Fund between 2011 and 2017. The committee noted: "supporting the fossil fuel economy in developing countries damages the effectiveness of the UK's approach to combatting climate change and this should be rectified urgently."<sup>1</sup>
3. Since the publication of this inquiry Global Witness revealed additional investments in fossil fuels totaling 750 million dollars by a DFID-controlled investment fund, the Private Infrastructure Development Group (PIDG). In addition, Greenpeace revealed that CDC Group, the government's development bank, has 16 active investments in oil and gas projects in Africa and one in South East Asia.<sup>2</sup> It is likely that additional investments in fossil fuels exist that we do not know of.
4. In order to ensure aid effectiveness as well as policy coherency, it is of utmost importance that the IDC re-examines the issue of continued support to fossil fuels, provided not only through non-ODA spending like UK Export Finance, but also via ODA. The Government has ignored the IDC's July 2019 recommendation as well as the Environmental Audit Committee's recommendation regarding the need to end export credit support for fossil fuels.<sup>3</sup>

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<sup>1</sup> International Development Committee, July 2019, 'Major change in Government aid strategy needed to tackle Global Climate Emergency,' <https://www.parliament.uk/business/committees/committees-a-z/commons-select/international-development-committee/news-parliament-2017/uk-aid-for-combating-climate-change-report-publication-17-19/>

<sup>2</sup> The Independent, April 2020, 'Climate crisis: UK aid money funnelled into fossil fuel companies,' <https://www.independent.co.uk/environment/climate-crisis-uk-foreign-aid-money-fossil-fuel-africa-asia-cdc-group-a9464561.html>

<sup>3</sup> Environmental Audit Committee, June 2019, 'MPs call for end of taxpayer support for fossil fuel projects from 2021,' <https://www.parliament.uk/business/committees/committees-a-z/commons-select/environmental-audit-committee/news-parliament-2017/uk-export-finance-report-published-17-19/>

5. “Unleashing finance to power the shift to a zero-carbon economy” is rightfully one of the priorities for COP26.<sup>4</sup> However, as the host of COP26, the UK should make sure that it takes concrete steps on this and excludes fossil fuels from all public financing. This is an essential step for meeting Article 2.1(c) of the Paris Agreement, which calls on its signatories to “[m]ak[e] finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.”

6. Renewable energy provides a more reliable and resilient pathway for development. The costs of clean energy technologies have fallen dramatically in recent years, to the extent that it is already cheaper to build and run new clean energy projects than fossil gas projects in almost all contexts.<sup>5</sup> Electric vehicles are anticipated to be cheaper to buy and run than combustion engine alternatives by the mid-2020s, and this is already the case many times over when mobility needs are met through electrified mass public transit instead.<sup>6</sup>

7. Distributed renewable energy is well-established as the most affordable and reliable mechanism for delivering energy to communities lacking access.<sup>7</sup> Similarly, the potential for low-carbon job creation is high – almost any sector provides more jobs per dollar of investment than the fossil fuel sector – but there is a critical gap of public finance and government leadership to ensure retraining, retooling, and community-level transition programmes are in place.<sup>8</sup>

8. On the contrary, investments in fossil fuels do not just undermine climate goals, they are also not attractive for public investments. The global oil market is currently being impacted by three converging factors: unparalleled demand destruction driven by the COVID-19 crisis, expected to slash 20-30% of global oil demand by the end of May and to continue to impact demand for much of 2020 and possibly beyond,<sup>9</sup> an oil price war and long-term structural decline driven by renewables and decarbonisation. It is important to remember the latter point: even before the COVID-19 crisis, the fossil fuel industry was already showing signs of permanent decline. During eight of the last nine years, energy stocks underperformed the broader market, while renewable stocks outperformed the index by 20% in 2019.<sup>10</sup> Last year the oil and gas sector

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<sup>4</sup> <https://sdg.iisd.org/news/un-secretary-general-uk-italy-outline-priorities-for-cop-26/>

<sup>5</sup> Lazard, *Levelized Cost of Energy*, Version 13.0, November 2019, <https://www.lazard.com/perspective/lcoe2019>; International Renewable Energy Agency, *Renewable Power Generation Costs in 2018*, Abu Dhabi, [https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2019/May/IRENA\\_Renewable-Power-Generations-Costs-in-2018.pdf](https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2019/May/IRENA_Renewable-Power-Generations-Costs-in-2018.pdf).

<sup>6</sup> Colin McKerracher et al., *Electric Vehicle Outlook 2019*, BloombergNEF, <https://about.bnef.com/electric-vehicle-outlook/>; Antonio García-Olivares, Jordi Solé, and Oleg Osychenko, "Transportation in a 100% renewable energy system," *Energy Conversion and Management* 158 (2018): 266-285, <https://www.sciencedirect.com/science/article/pii/S0196890417312050>.

<sup>7</sup> Divyam Nagpal and Bishal Parajuli, Off-grid renewable energy solutions to expand electricity access: An opportunity not to be missed, International Renewable Energy Agency (IRENA), January 2019, [www.irena.org/-/media/Files/IRENA/Agency/Publication/2019/Jan/IRENA\\_Off-grid\\_RE\\_Access\\_2019.pdf](http://www.irena.org/-/media/Files/IRENA/Agency/Publication/2019/Jan/IRENA_Off-grid_RE_Access_2019.pdf);

Africa Progress Panel, *Lights Power Action: Electrifying Africa - Africa Progress Panel Report*, 13 March 2017, p. 56, <https://www.africanpowerplatform.org/resources/175-lights-power-action-electrifying-africa.html>.

<sup>8</sup> Greg Muttitt and Anna Markova, *Sea Change: Climate Emergency, Jobs, and Managing the Phase-out of UK Oil and Gas Extraction*, Platform, Oil Change International and Friends of the Earth Scotland, May 2019, <http://priceofoil.org/content/uploads/2019/05/SeaChange-final-r3.pdf>.

<sup>9</sup> Rystad Energy, COVID-19 Report 5th Edition. April 7, 2020. [https://www.rystadenergy.com/globalassets/pdfs/rystad-energy\\_covid-19-report\\_7-april\\_2020\\_final-public-version.pdf](https://www.rystadenergy.com/globalassets/pdfs/rystad-energy_covid-19-report_7-april_2020_final-public-version.pdf).

placed dead last in the Standard's & Poor 500 index. Whilst in the 1980s, there were seven oil and gas companies represented in the top 10 economically performing companies, today there are none.<sup>11</sup>

9. In sum, it is of crucial importance that the committee places further scrutiny on the UK government to ensure that it ends all public finance for fossil fuels in order to ensure that the UK's aid is effective and contributes to both climate and development goals. This is particularly important to ensure the credibility of the UK in its role of COP26 host.

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<sup>10</sup> Tom Sanzillo, "Renewable sector handily tops oil and gas index in 2019 U.S. stock market results," Institute for Energy Economics and Financial Analysis, 21 January 2020, <https://ieefa.org/renewable-sector-handily-tops-oil-and-gas-index-in-2019-u-s-stock-market-results/>.

<sup>11</sup> Tom Sanzillo, "IEEFA update: Oil and gas stocks place dead last in 2019, again, despite 30% price rise," Institute for Energy Economics and Financial Analysis, 9 January 2020, <https://ieefa.org/ieefa-update-oil-and-gas-stocks-place-dead-last-in-2019-again-despite-30-price-rise/>.