GREENING UK EXPORT FINANCE

Igor Shishlov, Philipp Censkowsky, Andrew Leming and Ryan Shorthouse

bright blue

Greening UK Export Finance

Igor Shishlov, Philipp Censkowsky,
Andrew Leming and Ryan Shorthouse

bright blue

Bright Blue is an independent think tank and pressure group for liberal conservatism. Bright Blue takes complete responsibility for the views expressed in this publication, and these do not necessarily reflect the views of the sponsor.

Design: Chris Solomons

First published in Great Britain in 2022

by Bright Blue Campaign
ISBN: 978-1-911128-53-3

www.brightblue.org.uk

Contents

About the authors

Dr. Igor Shishlov

Igor is a Senior Climate Finance Expert at Perspectives Climate Research and the Academic Director of Climate and Business Program at HEC Paris. He has been working in the climate policy area since 2011 and has extensive experience in various topics related to international climate finance. In 2019, he advised the German Federal Ministry of Economic Cooperation and Development (BMZ) on the state of art of climate change trust funds in multilateral development banks, their challenges and suggested reforms. In 2018, Igor advised the European Bank for Reconstruction and Development (EBRD) on how to boost the contribution of green bonds to financing the low-carbon transition. In 2017, he was part of the team that conducted the evaluation of the World Bank Group's carbon finance activities. Currently, Igor leads a research program focused on Paris alignment of export finance.

Philipp Censkowsky

Philipp holds a Joint Master´s Degree in Economics from the University of Paris Sorbonne-Nord and the University of the Witwatersrand in Johannesburg. He concluded his studies as guest researcher at Potsdam Institute for Climate Impact Research (PIK). Above his academic training, Philipp worked at Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) on multilateral development banks and their role for climate finance and policy. For several years, he also accompanied a public-private partnership project on mangrove rehabilitation and local value chain improvement in Costa Rica. At Perspectives, Philipp works on projects that support NDC-updates, UNFCCC processes with focus on Article 6 negotiations as well as sustainable finance.

Andrew Leming

Andrew was a Researcher at Bright Blue, focussing on energy and environment policy. He is now Senior Insights Manager at Digiio, a digital marketing agency working on behalf of major tech clients in London. He has specialised in the development of qualitative and quantitative research, strategic market insights, and stakeholder engagement on projects for academic scholars, multinational firms, NGOs, and the European Commission. Andrew has degrees in Political Science and Latin American Studies from the University of Tennessee at Knoxville, and a masters degrees in International Political Economy and Latin American Studies from King's College London.

Ryan Shorthouse

Ryan is the Founder and Chief Executive of Bright Blue. Under his leadership, Bright Blue has grown significantly in size, reputation, and impact. The organisation has been shortlisted for the UK social policy think tank of the year and UK environment and energy think tank of the year in the prestigious annual Prospect Magazine awards four years in a row. Ryan is also a Senior Visiting Fellow at King's College London. He is a trustee of two What Works Centres – the Early Intervention Foundation (EIF) and Transforming Access and Student Outcomes in Higher Education (TASO). He sits on the advisory council of the University of Bath Institute for Policy Research, National Council for Voluntary Organisations, and Shelter's Big Conversation on Social Housing. He is a mentor for the Social Mobility Foundation and a governor of a new secondary school in East London.

Acknowledgements

The report has been made possible by the generous support of the European Climate Foundation. The views expressed in this report are not necessarily those of the sponsor.

The authors would like to thank all the experts who contributed to this study as well as to the development of the ECA Paris alignment methodology by providing comments and/or participating in dedicated discussions: Nicolas Berghmans (IDDRI), Louise Burrows (E3G), Han Chen (NRDC), Ian Cochran (I4CE), Laila Darouich (Perspectives Climate Group), Kate DeAngelis (Friends of the Earth), Lydia Gibson (European Climate Foundation), Patrick Hall (Bright Blue), Niels Hazekamp (Both ENDS), James Hawkins (E3G), Christoph Herfarth (BMWi), Donald Linderyd (WWF Sweden), Robin Mace-Snaith (CAFOD), Zach Malik (E3G), Cecile Marchand (Friends of the Earth), Axel Michaelowa (Perspectives Climate Research), Omoniyi Osoba (Euler Hermes AG), Alice Pauthier (I4CE), Joe Thwaites (WRI), Bronwen Tucker (Oil Change International), Wiert Wiertsema (Both ENDS), Sejong Youn (Solution for Our Climate), Ann-Katrin Zink (BMWi).

The authors would also like to thank Dr Ben Caldecott, Sam Hall, Sarah O'Brien and Astrid Manroth for their support throughout the project.

The views expressed in this report are those of the authors and do not necessarily reflect the views of people mentioned in the acknowledgements above.

Opinium conducted the polling for this project. We are grateful to James Crouch and Joseph Curran for their hard work and attention to detail on the polling.

The polling was conducted between 12th and 15th November 2020. The sample consisted of 750 respondents working in exporting firms located in the UK. All respondents are responsible for at least one significant managerial function of the business in which they are employed.

To make the sample of exporters broadly reflective of all UK exporting firms, the sample was designed to ensure there were different attributes of firms that were included, including variance by export sector, firm size, business location in the UK, annual turnover, and primary export region.

Executive summary

Countries around the world have Export Credit Agencies (ECAs), government-backed finance institutions (FI) that provide financial support such as loans, insurance and guarantees to exporters of goods and services from a domestic creditor economy to a debtor economy abroad. As Chapter One describes, ECAs are a critical part of the international trade finance system.

As government-backed institutions, ECAs bear the political mandates and international commitments of their respective governments, including those under international treaties such as the Paris Agreement. The Paris Agreement mandates that parties commit to "Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels." In practice, this means signatories adopting net zero targets that need to be met by the middle of this century.

However, many countries still provide significant amounts of financial support to fossil fuel projects from exporters through their ECAs, which increases greenhouse gas (GHG) emissions and thus contributes to climate change.

Admittedly, some ECAs (and/or their respective governments) have recently committed to take firmer action on reducing support for fossil fuel projects and increased financing for low-carbon and renewable energy sources.

The UK, in particular, has made significant progress in recent times. Last year, the UK became the first country to actually implement – not just commit to – a phase out of most loans, insurance and guarantees for the development of fossil fuel export projects overseas. While the phase out actually applies across all UK overseas spending, lending and aid, this recent policy was especially focused on reforming its export credit agency, UK Export Finance (UKEF), which has come under intense criticism recently for financing a fossil fuel projects overseas.

Moreover, the UK launched the Statement on International Public Support for the Clean Energy Transition at COP26 in Glasgow in November 2021, which commits signatories to end new direct public support for the international 'unabated' fossil fuels by the end of 2022.

Despite these developments, the extent to which UKEF is fully aligned with the Paris Agreement generally remains unclear and doubtful.

This report seeks to investigate this further by answering the following research questions:

1. What is the impact of ECAs, and UKEF in particular, on climate change?
2. What are the core features of an ECA that is fully aligned with the Paris Agreement?
3. What policies should be adopted to ensure UKEF fully aligns with the Paris Agreement?
4. How should the UK influence the debate around reforms to ensure international ECAs fully align with the Paris Agreement?

We employed four research methods to answer the research questions. First, an extensive literature review of relevant public documents from UKEF and the UK Government, 'grey' literature from highly reputable sources, and peer-reviewed literature from thematic journals related to trade finance and climate policy. Second, stakeholder consultation with relevant government officials, researchers, and NGOs. Third, polling of UK exporting firms was designed and conducted in partnership with Opinium, consisting of a reflective sample of 750 UK exporting firms. Fourth, we applied the Perspectives Climate Group's ECA Paris Alignment assessment methodology, detailed in the annex.

These research methods allowed us to: outline the role of ECAs and their climate change impact (Chapter Two); provide a detailed overview of officially supported export finance system in the UK through UKEF (Chapter Three); analyse existing climate-related processes and policies in UKEF (Chapter Four); present the core features of a Paris-aligned ECA (Chapter Five); and detail the results of the assessment of Paris alignment of UKEF, identifying the key gaps that still must be addressed (Chapter Six).

The role of ECAs and their climate impact

Despite the commitments under the Paris Agreement, it has been estimated that the G20 countries' ECAs provided at least USD 23 billion in public financing for overseas coal projects from 2013 to 2016 and only around USD 3 billion for overseas renewable energy projects in the same period. Worse, it has been estimated that from 2016 to 2018, the ECAs of the G20 countries provided an annual average of USD 40.1 billion to support all fossil fuel (coal, oil and gas) projects. A staggering 79% of this came from only four countries: Canada (more than USD 10 billion), Japan (more than USD 8 billion), China (close to USD 8 billion) and South Korea (more than USD 5 billion).

A recent study by Perspectives Climate Research reviewed climate policies that apply to different ECAs across the world. It demonstrated that there are very few explicit requirements to phase out support to fossil fuels and more broadly align ECAs' operations with the Paris Agreement.

Binding international agreements

The most relevant – and the only binding – international policy framework for export finance is the 1978 OECD Arrangement on Officially Supported Export Credits (referred to as the 'OECD

Arrangement') whose purpose is to foster fair competition – the so-called 'level playing field'. Major G20 members participate, namely Australia, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland, Turkey, the United Kingdom and the United States. But not China.

There are currently six 'OECD Sector Understandings', which are part of the OECD Arrangement and which comprise additional sector-specific rules. Two of them are directly relevant for the climate impact of ECAs:

- **The Renewable Energy, Climate Change Mitigation and Adaptation and Water Projects Sector Understanding (CCSU).** Recognises exports of climate-friendly technologies and projects which contribute to climate change mitigation. These exports are allowed to receive more favourable conditions from ECAs, such as longer credit periods or lower interest rates.
- **The Coal-Fired Electricity Generation Sector Understanding (CFSU).** Provides stricter terms and conditions for the ECAs' support related to coal-fired electricity generation projects.

In October 2021, in the run up to COP26, an agreement by the OECD to tighten these rules was introduced. Consequently, this banned officially supported export credits and tied aid for:

- New coal-fired power plants without (CCS) facilities.
- Existing coal-fired power plants, unless the purpose of the equipment supplied is pollution or CO2 abatement and such equipment does not extend the useful lifetime or capacity of the plant, or unless it is for retrofitting to install CCS.

While phasing out coal support is a welcome development, the OECD Arrangement does not restrict support to oil and gas sectors at all. The OECD Arrangement thus does not lead to sufficient ambition to fully align officially supported export finance with the Paris Agreement and the latest climate science.

Voluntary international agreements

Beyond the OECD Arrangement, there are a number of voluntary international environmental, social and human rights (ESHR) standards that some ECAs commit to. UKEF commits to all of them.

- **The Equator Principles.** Require classification of projects according to the severity of potential ESHR impacts.
- **The International Finance Corporation's (IFC) Environmental and Social Performance Standards.** Identifies responsibilities and commitments for managing ESHR risks.
- **The World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines).** Include the performance levels and measures that are normally acceptable to the World Bank Group, and that are generally considered to be achievable in new facilities at reasonable costs by existing technology.

However, committing to the above ESHR standards does not necessarily lead to a reduction or phase out of fossil fuel financing and/or increase in support of climate-friendly exports.

Despite the general lack of binding international climate standards for ECAs, some ECAs (and/or their respective governments) have recently committed to take firmer action on reducing support for fossil fuel projects and increased financing for low-carbon and renewable energy sources. This includes three climate-related international agreements with voluntary participation:

- **Powering Past Coal Alliance (PPCA).** A group of 165 countries, cities, regions and businesses who have pledged to end support for coal-fired power production.

- **Export Finance for Future (E3F).** A coalition of ten major European economies committed to ending support for thermal coal power and related infrastructure and foresees a review of and assessment how to phase out other fossil fuel-related officially supported export finance.
- **The Statement on International Public Support for the Clean Energy Transition.** Most recently, at COP26 the UK launched this, which commits signatories to end new direct public support for the international 'unabated' fossil fuels, except in limited and clearly defined circumstances, by the end of 2022. As of December 2021, the statement has been signed by 39 countries and financial institutions.

Yet, these three climate-related international agreements are still not in line with the latest 'Net Zero scenario' developed by the International Energy Agency (IEA), which calls for immediate end of new fossil fuel supply developments, including natural gas without exceptions.

Moreover, the largest supporters of fossil fuels are either not on board with any of the three climate-related international agreements (for example, China, Japan and South Korea) or have committed to only end international support for fossil fuels while maintaining high levels of domestic support (for example, Canada). Finally, these three climate-related international agreements do not address other aspects of Paris alignment beyond fossil fuel support phase out.

Ultimately, ECAs as a class of government-backed FIs have a significant impact on climate change due to their continued support of fossil fuels. Moreover, despite the new commitments made at COP26, there is still a long way to go to fully align the international export finance system with the Paris Agreement.

Overview of UK Export Finance

UKEF operates as a government department, principally related to the Department for International Trade (DIT). UKEF's core mission is "to ensure that no viable UK export fails for lack of finance or insurance, while operating at no net cost to the taxpayer".

Through its financial support, UKEF aims to achieve three primary objectives: the acquisition of foreign contracts by exporters; the development of export projects through capital lending; and the 'de-risking' of investments and transactions with overseas clients. UKEF is subject to the policies and oversight of the UK government and, ultimately, the UK Parliament.

Delivered through private financial institutions (FIs), UKEF offers different forms of support (or 'facilities') to assist UK exporters developing projects overseas. These facilities at UKEF take the form of loans (financing), insurance and guarantees – as per UKEF's own classification. To generate returns to UK taxpayers, UKEF charges varying rates of commercial interest on the loans, insurance and guarantees provided to exporters and sets risk premiums on a case-by-case basis.

Similar to other ECAs, UKEF intervenes to support export projects where financing is unavailable in the private market, or where providing loans, insurance and guarantees would incur excessively high risks for private FIs. According to the polling conducted for this report, this financial support is vital for UK exporting firms:

- A majority of 68% of UK exporting firms say that financial support from UKEF is very important or important for sustaining their firms' exporting business.
- A majority of 58% of UK exporting firms that are familiar with UKEF approve of the quality of services rendered by UKEF.

Climate-related processes and policies in UKEF

Historically, UKEF's support for exporters within the energy sector up to now has been heavily oriented toward carbon-intensive projects. According to the House of Commons Environmental Audit Committee, between 2013 and 2018, UKEF provided £2.5 billion for energy projects (equivalent to around 21% of all UKEF financing), with only £104 million going to low-carbon or renewable energy projects. UKEF therefore has come under intense criticism recently for financing a variety of fossil fuel projects overseas.

Responding to this criticism, UKEF has redefined the roles of other strategy and policy personnel to incorporate climate-related considerations and established a new position, Head of Climate Change, to lead on climate policy formation and strategy across a number of areas. This includes the disclosures related to climate impacts and risks, intra-government coordination around COP26, UKEF actions on compliance with Sustainable Development Goals (SDGs) targets, and engagement with civil society, NGOs, international ECAs and FIs.

In 2021, the UK became the first country to actually implement – not just commit to – a phase out of most loans, insurance and guarantees for the development of fossil fuel export projects overseas.

Beyond the phase-out for financing all new fossil fuel exporting projects, in September 2021, in the run up to COP26, UKEF published a comprehensive Climate Change Strategy for 2021-2024. The strategy has an overarching objective of net zero emissions by 2050 and is built on five strategic pillars:

1. Increasing support for clean growth and climate adaptation.
2. Reducing GHG emissions from its financial portfolio.
3. Improving understanding and mitigation of climate-related financial risks.
4. Reporting against climate-related commitments, enhancing transparency and disclosure.
5. Leading internationally, encouraging others to follow UKEF's lead and set ambitious climate targets.

Increasing support to clean growth and climate adaptation

UKEF has recently launched two dedicated facilities to support low carbon projects:

- **The Clean Growth Direct Lending Facility (CLGF).** While few details are provided on the precise terms and conditions of lending under this scheme, UKEF indicates that this £2 billion facility may offer financing for a broad range of export projects defined as beneficial for lowering GHG emissions.
- **Transition Export Development Guarantee (TEDG).** This facility was launched in 2021 to support UK exporting companies with their energy business transition. At the time of writing, no further information on the applications to the facility was available and the actual impact of this new facility therefore remains to be seen.

Reducing portfolio GHG emissions

At the moment, UKEF does not operate a GHG accounting system, and it is therefore not possible to assess the evolution of either its absolute GHG emissions or the GHG intensity of its portfolio.

Under its new Climate Change Strategy, UKEF commits to net zero GHG emissions across scopes 1, 2 and 3 by 2050, as defined by the GHG Protocol's Corporate Standard. In 2021-2022, UKEF will determine its scope 1 and 2 emissions, as well as scope 3 emissions, starting with the highest emitting projects. At the same time, UKEF will develop interim decarbonisation targets on the pathway towards net zero.

Understanding and mitigating climate-related financial risks

Since July 2020, UKEF requires a climate change risk assessment for all Category A and Category B projects as per Equator Principles.

Under its new Climate Change Strategy, UKEF commits to "Appropriately and proportionately take account of climate- related risk across our credit risk assessments for all our products to ensure we are responsibly managing public money." The Climate Change Strategy mentions that initially this assessment will be qualitative in nature, but will move towards more quantitative assessment over time.

Transparency and disclosure

UKEF made its first disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in its 2020-21 Annual Report. UKEF was the first ECA worldwide to do this. This disclosure, however, was qualitative in nature: so it did not provide quantitative information, such as the exposure to fossil fuel related assets, absolute or relative GHG emissions or sectoral emissions reduction targets. Within its Climate Change Strategy, UKEF committed to provide the first quantitative disclosure in its second TCFD report for 2021-22, although it was not indicated what exact quantitative information would be provided.

Providing international leadership on climate change among ECAs and relevant FIs

According to its Climate Change Strategy, UKEF is working closely with like-minded ECAs and their respective governments with regards to updating the OECD Coal-Fired Electricity Generation Sector Understanding (CFSU) that restricts ECAs' support to coal projects in the power sector. However, some major exporters, such as China, are not members of the OECD and thus not subject to these restrictions. Moreover, there are no such restrictions on oil and gas sectors under the OECD Arrangement.

At COP26 the UK launched the Statement on International Public Support for the Clean Energy Transition. As of December 2021, the statement has been signed by 39 countries and financial institutions.

Essentially, while historically UKEF provided significant support to the fossil fuel related exports, thus contributing substantially to climate change, it has made significant improvements in the past few years, most notably by phasing out support to all fossil fuels with some exceptions, rallying other countries to join this commitment at COP26 and adopting a comprehensive Climate Change Strategy.

Our polling for this project found evidence of strong majority support for a wide range of transformative climate policy actions by UKEF:

- A clear majority of all UK exporters would like for UKEF to be an important force for promoting low-carbon exports globally (73%) and providing more generous financing terms to exporting firms that help to address climate change (73%)
- The majority of all UK exporters support: UKEF assisting exporting firms with preparation for and adaptation to climate-related risks (72%); prioritising job creation within the low-carbon and renewable energy sector over protecting employment in the oil and gas sectors (71%); and, leading among other ECAs on efforts to combat climate change (70%).
- A majority of all UK exporting firms (83%) favour UKEF providing better financing terms for exports of low-carbon goods and services.
- A majority of UK exporting firms (62%) state that UKEF should provide worse financing terms for exports of high-carbon goods and services.

Core features of a Paris-aligned ECA

Perspectives Climate Research has developed an original methodology to assess the Paris alignment of ECAs. The assessment methodology has five dimensions of Paris Alignment, which are differently weighted:

1) **Transparency.** Financial and non-financial disclosures. Weighted 20%.
2) **Mitigation I.** Ambition of fossil fuel exclusion or restriction policies. Weighted 40%.
3) **Mitigation II.** Climate impact of and emission reduction targets for all activities. Weighted 20%.
4) **Climate finance.** Positive contribution to the global climate transition. Weighted 10%.

5) **Engagement.** Outreach and 'pro-activeness' of the ECA and its governments. Weighted 10%.

Each of the five dimensions is underpinned by three to five key questions, meaning there are a total of 18 questions. Each question is underpinned by four specific benchmarks, meaning there are in total 72 benchmarks. The benchmarks attribute one out of four labels of Paris alignment and a corresponding sub-score for each question, namely:

a. **Unaligned.** Sub-score = 0.00/3.00.
b. **Some progress.** Sub-score = 1.00/3.00.
c. **Paris aligned.** Sub-score = 2.00/3.00.
d. **Transformational.** Sub-score = 3.00/3.00.

The sum of the weighted sub-scores provides the overall weighted assessment result. This assessment methodology is thus a practical and objective tool to identify both gaps and best practices of Paris alignment and can be used to inform ongoing reform within different ECAs.

The specific core features of a Paris-Aligned ECA are:

Dimension 1: Transparency

- ECA reports its Scope 1-3 GHG emissions.
- ECA reports the share of fossil fuel support (including upstream and downstream value chains) in its portfolio.
- ECA reports the share of climate/sustainable finance in its portfolio.
- ECA provides regular disclosure fully in line with the TCFD.

Dimension 2: Mitigation I

- ECA phased out support to coal and related value chains.
- ECA phased out support to oil and related value chains.
- ECA phased out support to gas and related value chains.

Dimension 3: Mitigation II

- ECA demonstrates a declining trend in its GHG emissions.
- ECA demonstrates a zero share of fossil fuels in its energy portfolio.
- ECA set GHG emissions reduction targets in all emission-relevant sectors in line with the latest climate science.

Dimension 4: Climate Finance

- ECA credibly demonstrates a share of climate finance in its portfolio between 20% and 50% and an upward trend.
- ECA adopted common climate finance earmarks.
- ECA demonstrates 100% clean energy in its energy portfolio.
- ECA implements effective climate rewards based on the climate impact of activities.
- ECA demonstrates strong synergies with national development agencies or has a mandate that includes contributions to sustainable development goals and safeguards against negative impacts.

Dimension 5: Engagement

- ECA assumes leadership in international fora with regards to advancing the climate agenda.
- ECA assumes leadership for national fora with regards to advancing the climate agenda.
- ECA engages with exporters with regards to advancing the climate agenda.

Assessment of UKEF alignment with the Paris Agreement

The assessment methodology was applied to rate UKEF, outlining where it is making good progress and where it requires further reforms.

Overall, UKEF has made significant progress with regards to aligning its operations with the Paris Agreement and is not far from being 'Paris aligned' according to the benchmarks set forth in this original assessment methodology. This is most notably due to stopping official export finance support for fossil fuels (coal, oil and gas, with limited exceptions) in overseas businesses in 2021, other commitments made under UKEF's Climate Change Strategy, as well as the UK's recent engagement at COP26.

Despite all this, UKEF is not yet fully in line with the Paris Agreement. Important caveats include the exceptions in fossil fuel exclusion policies, lack of clear definitions of fossil fuel and clean energy categories, and lack of transparency in the reporting on support in different sectors as well as GHG accounting. The table below provides an overview of Paris Alignment scores for each of the assessment dimensions.

Assessment dimension	Weight	Description	Score
1. Transparency	0.2	Financial and non-financial disclosures	**1.25/3.00**
2. Mitigation I	0.4	Ambition of fossil fuel exclusion or restriction policies	**1.33/3.00**
3. Mitigation II	0.2	Climate impact of and emission reduction targets for all activities	**0.67/3.00**
4. Climate finance	0.1	Positive contribution to the global climate transition	**0.80/3.00**
5. Engagement	0.1	Outreach and 'pro-activeness' of the ECA and its government	**2.33/3.00**
Assessment outcome:		**Some progress**	**1.23/3.00**

Compared to other countries, for which an assessment score has been generated by Perspectives Climate Research, the UK performs relatively well. Indeed, the four other countries – Canada, Germany, Japan and the Netherlands – assessed by Perspectives Climate Research were all rated 'Unaligned' with the Paris Agreement.

New policies

Since the UK still holds the COP presidency after the 2021 Glasgow Climate Pact, we believe that UKEF should implement what we recommend as soon as possible to build on the momentum created from COP26.

In Chapter Six, we propose key policy recommendations for UKEF to adopt to improve its facilities and policies so that they are fully aligned with the Paris Agreement. By doing so, UKEF would become the leading model ECA internationally.

Our policy recommendations are across all the five dimensions in the assessment methodology employed for this report.

Transparency

Recommendation one: Adopt the best international GHG accounting system for all scope 1-3 emissions.

Recommendation two: Disclose climate-friendly and climate-adverse financing across all of UKEF's portfolio.

Recommendation three: Further enhance TCFD reporting by providing quantitative indicators on GHG emissions.

Recommendation four: Incorporate Taskforce on Nature-related Disclosures (TNFD) for UKEF projects once they become available.

Mitigation I

Recommendation five: Adopt a value-chain approach to stop UKEF supporting fossil fuel projects, directly or indirectly.

Recommendation six: Exclude all natural gas projects from future UKEF support.

Mitigation II

Recommendation seven: Adopt new Science Based Target Initiative (SBTi)-approved decarbonisation pathways and targets for all economic sectors which include projects supported by UKEF.

Climate finance

Recommendation eight: Set new targets for UKEF: a) a year-on-year increase for the proportion of climate-friendly financing across all of UKEF's portfolio, and b) that half of all financing will be climate-friendly as soon as possible.

Recommendation nine: Introduce a climate-reward system for exporters for UKEF financing, such as smaller premium or interest payments.

Engagement

Recommendation ten: The UK should build on COP26 momentum to expand the Statement on International Public Support for the Clean Energy Transition and the OECD Arrangement to include phasing out fossil fuel support and closing remaining loopholes.

Conclusion

This report aims to serve as a stepping stone to fully align UKEF with the Paris Agreement and provide a model that can help other countries spur necessary reforms in their ECAs. Through the application of a dedicated ECA Paris alignment methodology we identified areas where the UK demonstrated international leadership as well as areas where further improvement is required. By implementing our recommendations outlined above, the UK would be able to achieve full alignment of its export finance with the Paris agreement and motivate other countries to follow suit.

Chapter 1: **Introduction**

Countries around the world have Export Credit Agencies (ECAs), government-backed finance institutions (FI) that provide financial support such as loans, insurance and guarantees to exporters of goods and services. ECAs are a critical part of the international trade finance system.

However, contrary to their commitments under the Paris Agreement on climate change, detailed in Box 1.1, many countries still provide significant amounts of financial support to fossil fuel projects from exporters through their ECAs, which increases greenhouse gas (GHG) emissions and thus contributes to climate change.

Box 1.1. The Paris Agreement

In 2015, the 21st Conference of Parties (COP21) to the United Nations Framework Convention on Climate Change (UNFCCC) culminated in the adoption of the Paris Agreement.[1] It was ratified by nearly 200 countries, including the UK.

1. United Nations. "Paris Agreement" https://unfccc.int/sites/default/files/english_paris_agreement.pdf (2015).

Article 2.1a of the Paris Agreement mandates that parties commit to "Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels." In practice, this meant signatories adopting net zero targets that need to be met by the middle of this century. Indeed, in 2019, the UK became the first G7 country to legislate for a new, legal net zero emissions target by 2050 at the latest.

The Paris Agreement does note that reducing emissions will require a redirection of finance and investment flows away from carbon-intensive activities to achieve emissions reductions in line with those required for the 1.5°C transition pathway. Article 2.1c calls on parties to: "Make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."

A key element of the Paris Agreement is that financing for developing countries must aim to reduce their economic dependence on carbon-intensive infrastructure and production. Articles 9.1 and 9.3 state that: "Developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation [...by] mobilising climate finance from a wide variety of sources, instruments, and channels."

The Paris Agreement therefore places special responsibility of scaling up sustainable finance on the institutions of developed countries. This element of the treaty is particularly important for ECAs, given their role in creating energy infrastructure in developing countries.

It has been estimated that the G20 countries' ECAs provided at least USD 23 billion in public financing for overseas coal projects from 2013 to 2016 and only around USD 3 billion for overseas renewable energy projects in the same period.[2] Worse, it has been

2. Han Chen and Jake Schmidt, "Power shift: shifting G20 international public finance from coal to renewables", https://www.nrdc.org/sites/default/files/power-shift-g20-international-public-finance-coalrenewables-report.pdf (2017).

estimated that from 2016 to 2018, the ECAs of the G20 countries provided an annual average of USD 40.1 billion to support all fossil fuel (coal, oil and gas) projects.[3] A staggering 79% of this came from only four countries: Canada (more than USD 10 billion), Japan (more than USD 8 billion), China (close to USD 8 billion) and South Korea (more than USD 5 billion).

A recent study by Perspectives Climate Research[4] reviewed climate policies that apply to different ECAs across the world. It demonstrated that there are very few explicit requirements to phase out support to fossil fuels and more broadly align ECAs' operations with the Paris Agreement. This research also showed that one main problem is the lack of publicly available information on ECAs activities and their climate impact. Among other reasons, this is why ECAs are under-researched government-backed FIs that until recently attracted very little public attention. This report seeks to change that somewhat, at least in the UK.

Admittedly, the UK has made significant progress in recent times. In fact, last year, the UK became the first country to actually implement – not just commit to – a phase out of most financing and insurance for the development of fossil fuel export projects overseas. While the phase out actually applies across all UK overseas spending, lending and aid, this recent policy was especially focused on reforming its export credit agency, UK Export Finance (UKEF), described in greater detail in Chapter Three, which has come under intense criticism recently for financing a fossil fuel projects overseas. Moreover, the UK launched the Statement on International Public Support for the Clean Energy Transition at COP26 in Glasgow in November 2021.[5] This initiative of 35+ countries and financial

3. Bronwen Tucker and Kate DeAngelis, "Still digging: G20 Governments continue to finance the climate crisis" http://priceofoil.org/content/uploads/2020/05/G20-Still-Digging.pdf (2020).
4. Igor Shishlov, Anne-Kathrin Weber, Inna Stepchuk, Laila Darouich and Axel Michaelowa, "Study on external and internal climate change policies for export credit and insurance agencies", University of Zurich https://bit.ly/2R1GBA4 (2020).
5. COP26, "Statement on International Public Support for the Clean Energy Transition" https://ukcop26.org/statement-on-international-public-support-for-the-clean-energy-transition (2021).

institutions commits signatories to end new direct public support for the international 'unabated' fossil fuels by the end of 2022. Despite these developments, the extent to which UKEF is fully aligned with the Paris Agreement generally remains unclear and doubtful. This report seeks to investigate this further.

Focus of this research

This report aims to answer the following research questions:

1. What is the impact of ECAs, and UKEF in particular, on climate change?
2. What are the core features of an ECA that is fully aligned with the Paris Agreement?
3. What policies should be adopted to ensure UKEF fully aligns with the Paris Agreement?
4. How should the UK influence the debate around reforms to ensure international ECAs fully align with the Paris Agreement?

By answering these questions, this report aims to serve as a stepping stone to fully align UKEF with the Paris Agreement and provide a model that can help other countries spur necessary reforms in their ECAs. Since the UK still holds the COP presidency after the 2021 Glasgow Climate Pact, we believe that UKEF should implement what we recommend as soon as possible to build on the momentum created from COP26.

For the purposes of this report, an ECA is described as 'Paris-aligned' if it fulfils the Paris alignment criteria developed by Perspectives Climate Research.[6]

6. Igor Shishlov, Philipp Censkowsky and Laila Darouich, "Aligning Export Credit Agencies with the Paris Agreement", Perspectives Climate Research, https://bit.ly/38nhMqz (2021).

Research methods

There were four main research methods for this report:

- **Literature review.** Desk-based research included a review of the following literature:
  - Relevant public documents from UKEF and the UK Government, such as annual reports, official documents and public announcements.
  - 'Grey' literature from highly reputable sources, such as international organisations, internationally recognised think tanks and research institutions, financial institutions (FIs), and non-governmental organisations (NGOs).
  - Peer-reviewed literature from thematic journals related to trade finance and climate policy.

- **Stakeholder consultation.** This included interviews with relevant government officials, researchers and NGOs to corroborate the findings from the literature review and collect additional information that may not necessarily be publicly available.
- **Polling.** The research firm Opinium was commissioned to conduct polling among a reflective sample of 750 UK exporting firms in November 2020 to understand: their views of engaging with UKEF's financing, products and services; their experiences with disruption during the COVID-19 pandemic and how UKEF assisted their firms; and, their views on UKEF's climate change priorities and energy policies. The sample was subdivided according to interaction with UKEF, resulting in two respondent groups. The first consisted of 642 exporting firms which had applied for and/or received UKEF funding, or at the very least were simply aware of UKEF. The second was made up of 108 exporting firms which had no prior knowledge of UKEF, but were provided a brief overview of the organisation's role from the outset of the survey. The sample was designed to provide insights on variation in views toward

UKEF and climate change policies among UK exporting firms of different sizes, levels of annual turnover, primary export sector, and business location in the UK.

- **Application of the Perspectives Climate Group's ECA Paris Alignment assessment methodology.** This applies a rigorous methodology to assess the 'Paris alignment' of ECAs with the Paris Agreement based on five dimensions and 72 benchmarks. The annex has full details about this assessment methodology. The assessment takes into account the findings from the literature review, stakeholder consultation and polling.

Report structure

The report is structured as follows:

- **Chapter Two** outlines the role of ECAs and their climate change impact.
- **Chapter Three** provides a detailed overview of officially supported export finance system in the UK through UKEF.
- **Chapter Four** analyses existing climate-related processes and policies in UKEF.
- **Chapter Five** presents the core features of a Paris-aligned ECA.
- **Chapter Six** details the results of the assessment of Paris alignment of UKEF, identifying the key gaps that still must be addressed.
- **Chapter Seven** concludes with a set of concrete policy recommendations on how to align the UK's officially supported export finance with the Paris Agreement and foster such reforms on the international level.

Chapter 2:
The role of ECAs and their climate impact

This chapter explains what Export Credit Agencies (ECAs) are, their current impact on climate change, and existing international climate-related standards that affect ECAs.

What are ECAs?

ECAs are government-backed finance institutions (FI), which are a fundamental part of the international trade finance system. The typical overriding purpose of an ECA is to promote trade abroad and increase the competitiveness of national companies in foreign markets.[7]

Their main financial products are insurance covers, guarantees and loans, described in greater detail later in this chapter, which relate to the export of goods and services from a domestic creditor economy to a debtor economy abroad.

ECAs exist in over 100 countries worldwide, but are particularly prominent and longstanding in export-driven high- and middle-income economies. Almost all ECAs from these countries are members of the Berne Union, the largest association of export finance and insurance providers, which represents 82 of the world's leading ECAs. Outstanding commitments of Berne Union Members reached USD 2.9 trillion by the end of 2020, supporting 13.6% of total global cross-border trade in

7. Igor Shishlov, Philipp Censkowsky and Laila Darouich, "Aligning Export Credit Agencies with the Paris Agreement", Perspectives Climate Research, https://bit.ly/38nhMqz (2021).

2020.[8] Forty ECAs are also recognised by the Organisation for Economic Cooperation and Development (OECD)[9] as official export credit agencies, including UKEF.

From an ownership point of view, ECAs can be either be public institutions or private companies, that act on behalf of governments, or a fusion of both.[10]

ECAs that are public institutions are usually 100% state-owned and may be backed by treasuries, finance and trade ministries, and other government departments. Public ECAs may also function as independent agencies, with autonomy over commercial transactions and arrangements with other finance institutions, subject to oversight and regulations set by governments.

In contrast, private ECAs – that can be privately or publicly held companies – often possess a government-granted monopoly on the provision of official trade finance and insurance cover. Thus, they possess the authority, subject to government oversight, to review and approve project applications by domestic exporters, banks or other entities they cooperate with, such as foreign importers. The latter can be the case since importing entities can receive better financing conditions on international capital markets if export-related loans are guaranteed for by a highly solvent state.

In return for de-risking projects and compensating exporters under certain conditions, the ECA receives risk premiums or interest rates paid by a project applicant. The specific interest rates and risk premiums charged to exporters are set in accordance with the individual ECA's risk and lending framework. Especially when large-scale or highly risky projects are concerned, ECAs may cover applications from all parties involved in a deal: the domestic exporter and the commercial bank, as well as the importing entity. Occasionally,

8. Berne Union, "Annual report of the export credit and investment business of Berne Union Members", https://bublob.blob.core.windows.net/assets/Images/Berne%20Union%20Export%20Credit%20Insurance%20in%202020.pdf (2021).
9. OECD, "Export credits", https://www.oecd.org/trade/topics/export-credits/ (2021).
10. Ibid.

multiple ECAs from different countries cover several transactions for the same project.

The governance structure varies significantly among major ECAs. For instance, the German ECA Euler Hermes is a mandated private company, a subsidiary of the listed Allianz SE, that acts under the official mandate of German Ministry of Economic Affairs and Energy (BMWi). Other countries also mandate private, or semi-private companies, to perform their export credit and insurance operations, such as Italy or the Netherlands.

Conversely, as will be explained in detail in Chapter Three, UKEF is a 100% publicly owned and is actually a government department. The United States Export-Import Bank (EXIM) and Canadian Export Development Corporation (EDC) are government-owned banks or corporations.

Governance and funding structures are thus highly heterogenous among ECAs. They are typically the product of the historical development of national export finance systems. Table 2.1 summarises the three main types of ownership structures of ECAs worldwide and their resulting funding sources.

Table 2.1. The three main types of ownership structure of ECAs

Type	Ownership	Funding sources	Examples
Public	Government	Government	UK Export Finance (UKEF), Sinosure (China), K-Sure (South Korea), Export Finance Australia, Export Development Canada (EDC)
Public-private	Government and private finance institutions	Government and private finance markets	Swedish National Export Credits Guarantee Board (EKN) Luxembourg Export Credit Agency (ODL)

Type	Ownership	Funding sources	Examples
Private-mandated	Closely-held or publicly-held (listed) companies	Private finance markets	Euler Hermes (Germany), Oesterreichische Kontrollbank AG (Austria), Export-Import Bank of the Slovak Republic (Slovakia), Atradius Dutch State Business (Netherlands)

Financial support offered by ECAs is generally referred to as 'officially supported export credits'. More specifically, Berne Union distinguishes between the following types of products,[11] which it should be noted not all ECAs offer:

- **Short term credit insurance.** Usually takes the form of supplier credit insurance for up to 12 months directly between the exporter and the foreign buyer. It provides cash flow relief when an exporter's customers become insolvent or do not pay their bills due to commercial or political risks. Losses can then be indemnified, allowing the business to maintain its cash flow.
- **Medium and long-term credit insurance.** Provides protection against commercial and political risk when extending credit terms of 1-20 years or longer. This mainly takes the form of buyer credit insurance – involving banks – to enable support for projects in power generation, large scale infrastructure, transportation and natural resources.
- **Political risk insurance.** Protects against losses to cross-border investments such as equity and debt because of political events. These include expropriation, political violence, currency inconvertibility, embargo, forced abandonment or breach of contract.

11. Berne Union, "About Export Credit and Investment Insurance", https://www.berneunion.org/Stub/Display/17 (2021).

- **Working capital support.** Mostly offered in the form of pure cover (such as insurance or guarantee of loans) but direct lending is also provided in some cases.
- **Bond cover.** Covers exporters for the risk of unfair calling of contract surety bonds and also fair calling when political risks materialise. These bonds are a widely used trade finance instrument whereby a bank guarantees on behalf of an exporter that in case of non-performance a defined sum will be paid to the importer on first demand.
- **Internationalisation.** Support for credits that are directly related to expansion of exports. Some are for exporters that invest in production capabilities at home others even for such investments abroad. Supporting export and internationalisation capabilities of companies by ECAs is not uncommon but still relatively rare.

From this list, we can ascertain three main types of financial products provided by ECAs, which is indeed how UKEF categorises them: loans, insurance, and guarantees.

Some ECAs often operate as 'insurers of last resort'. In other words, as government-backed FIs that only provide financial services for projects that the private sector will not undertake (for example, Eximbanka of Slovakia), while others are open to all exporters, yet may only cover exports where the majority of the value add of the export good or service takes place domestically (for example, Euler Hermes of Germany).

As government-backed FIs, ECAs have the important ability to de-risk business operations. This is why, for instance, commercial banks tend to offer beneficial terms and conditions when an ECA backs a project. Without the risk mitigation provided by ECAs, many projects would not come to life at all.[12] As such, not only can such de-risking enable projects in the first place, it can also unlock and increase funding streams from

12. Thomas Wenidoppler, "ECAs go to market – A critical review of transparency and sustainability at seven export credit agencies in Central and Eastern Europe", Bank Watch, https://bankwatch.org/wp-content/uploads/2018/02/ECAs-go-to-market.pdf (2017).

public and private sources.[13]

Typically, ECAs are described as 'demand-driven' entities that provide support for all incoming applications which fulfil relevant conditions in a respective country. At the same time, and often at the expense of climate-related considerations, ECAs reflect the economic priorities of respective governments. As such, they are an important instrument to steer national economic development – through supporting the competitiveness of small and medium-sized enterprises (SMEs) or large companies or conglomerates (so-called 'national champions'), as well as through advancing specific sectors in strategically important fields or geographies.

The climate change impact of ECAs

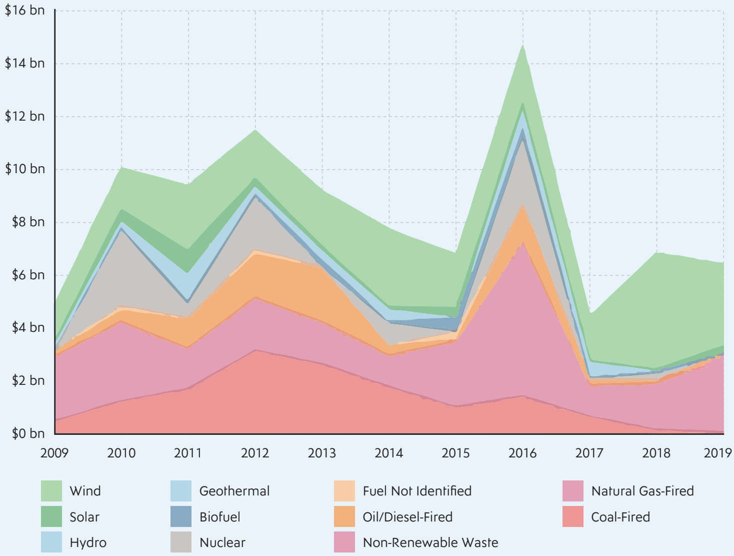
ECAs are particularly relevant for achieving the objectives of the Paris Agreement. As government-backed institutions, ECAs bear the political mandates and international commitments of their respective governments, including those under international treaties such as the Paris Agreement. However, ECAs have been heavily criticised for their lack of transparency, especially when compared to other public FIs[14] making scrutiny of them difficult.

Given the financial weight of these FIs, as documented in the previous chapter, the work of ECAs is highly relevant for redirecting financial flows away from fossil fuels and towards low-carbon activities.

Looking at the ECAs of the developed OECD countries, for which a breakdown of support by energy source within the power generation sector is publicly available, data shows financing for fossil fuels stayed high for most of the 2010s, reaching a peak in 2016 at over USD 8 billion, declined by over half in 2017, and began rising slightly into 2019. This is illustrated in Chart 2.1 below.

13. Igor Shishlov, Philipp Censkowsky and Laila Darouich, "Aligning Export Credit Agencies with the Paris Agreement", Perspectives Climate Research, https://bit.ly/38nhMqz (2021).
14. Bankwatch, "Export Credit Agencies (ECAs)", https://bankwatch.org/project/export-credit-agencies-ecas (2021).

Chart 2.1. Export credits from OECD ECAs within the power generation sector, $billions



Source: OECD[15]

While coal support from OECD ECAs has, happily, declined considerably in the past few years, support for natural gas is on the rise. ECA financing for solar, hydro, and geothermal power remained consistently low both in real terms and as a percentage of overall ECA energy financing until 2018 when it finally overtook the fossil fuel financing. This data underscores the enormous leeway for ECAs to shift public resources from climate-adverse to climate-friendly activities.

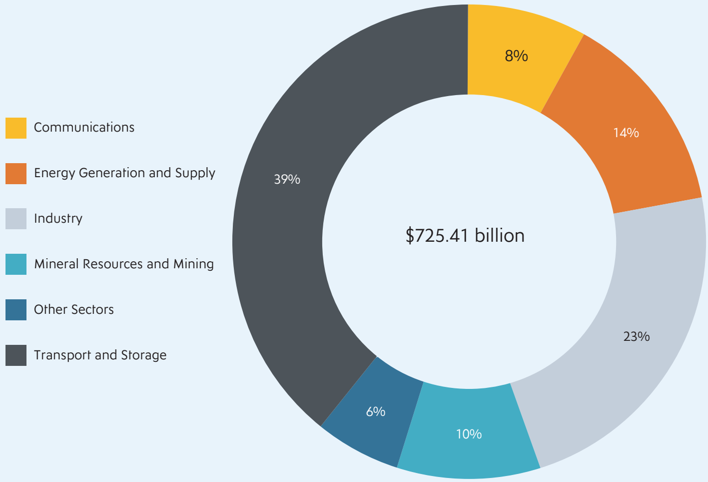
It is worth remembering that emissions financed or covered through ECAs outside their national territory are typically not part of domestic GHG accounting. At the moment, GHG inventories follow the territorial

15. OECD, "Export credits", https://www.oecd.org/trade/topics/export-credits/ (2021).

principle and the success of domestic climate action is thus measured with a production-oriented approach. This, however, excludes emissions from domestic companies caused, financed or covered abroad, which ECAs evidently substantially contribute to.

While ECA financing for fossil fuel *production*, as shown in Chart 2.1 above, is a major contributor to carbon lock-in, the support provided by ECAs in other carbon intensive sectors sustains high levels of fossil fuel *consumption*, further contributing to climate change. Data on the support provided by the OECD ECAs from 2009 to 2019 illustrates the broader scale of this problem. As seen in Chart 2.2 below, ECAs in the OECD have provided at least USD 725 billion worth of export credits over the past decade. A sizable percentage of these export credits have gone to support exporting firms operating within currently carbon intensive sectors, such as international transport and storage (39%), industrial manufacturing (23%) and energy generation and supply (14%). When looking into the climate change impacts of ECAs, it is therefore important to adopt a 'value chain' approach, which includes both upstream (from production) and downstream (from consumption) GHG emissions.

Chart 2.2. Export credits from OECD ECAs by sector, 2009-2019



Source: OECD[16]

International climate standards affecting ECAs

Binding international agreements

The most relevant – and the only binding – international policy framework for export finance is the 1978 OECD Arrangement on Officially Supported Export Credits (referred to as the 'OECD Arrangement') whose purpose is to foster fair competition – the so-called 'level playing field'.[17]

Major G20 members participate, namely Australia, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland, Turkey, the United Kingdom and the United States. But not China.

16. OECD, "Export credits", https://www.oecd.org/trade/topics/export-credits/ (2021).
17. OECD, "Arrangement on Officially Supported Export Credits", https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=tad/pg (2020).

There are currently six ‘OECD Sector Understandings’, which are part of the Arrangement and which comprise additional sector-specific rules. Two of them are directly relevant for the climate impact of ECAs:

- **The Renewable Energy, Climate Change Mitigation and Adaptation and Water Projects Sector Understanding (CCSU)**
- **The Coal-Fired Electricity Generation Sector Understanding (CFSU)**

First, the Renewable Energy, Climate Change Mitigation and Adaptation and Water Projects Sector Understanding (CCSU) was specified in 2012. It recognises exports of climate-friendly technologies and projects which contribute to climate change mitigation. These exports are allowed to receive more favourable conditions from ECAs, such as longer credit periods or lower interest rates.

Second, the Coal-Fired Electricity Generation Sector Understanding (CFSU) was specified in 2016. It provides stricter terms and conditions for the ECAs’ support related to coal-fired electricity generation projects. Until recently the CFSU still permitted public support for new coal-fired power plants (or components thereof) with emission intensities of up to 750 grams of CO2-equivalent per kilowatt-hour (gCO2e/kWh) for large units (>500 MW), up to 850 gCO2e/kWh for medium units (300-500 MW) or even higher than 850 gCO2e/kWh for smaller units (<300 MW) in poorer countries. For comparison, the EU working group on Sustainable Finance recommends a technology-agnostic and declining threshold which is much smaller: of 100gCO2e/kWh for a power plant to count as ‘sustainable’. Under this threshold, this would effectively rule out support for fossil fuel-fired electricity generation without carbon capture and storage (CCS).

In October 2021, in the run up to COP26, an agreement by the OECD to tighten these rules was introduced. Consequently, this banned officially supported export credits and tied aid for:[18]

- New coal-fired power plants without (CCS) facilities.
- Existing coal-fired power plants, unless the purpose of the equipment supplied is pollution or CO2 abatement and such equipment does not extend the useful lifetime or capacity of the plant, or unless it is for retrofitting to install CCS.

While phasing out coal support is a welcome development, the OECD Arrangement does not restrict support to oil and gas sectors at all. There are several reasons behind this climate-related leniency of the OECD. Some researchers see the weak regulation in the context of competition with China.[19] If a major economic bloc, such as the OECD, suddenly withdrew from fossil fuel-related export finance, it is feared that non-OECD members, like China, will jump in and gain disproportionate benefits. Another reason is the generally poor understanding of trade-embodied emissions and their attribution to intermediary finance actors or insurers, such as ECAs, which undermines due consideration in policymaking. Lastly, governments fear the loss of domestic jobs and therefore oppose far-reaching reforms to export finance. However, to counter this argument, it is worth stressing the increased demand for the more labour-intensive renewable energy sector, as demonstrated for the UK in recent years.[20]

Apart from the OECD Arrangement, the OECD introduced the 'Recommendation of the Council on Environmental and Social Due Diligence for officially supported export credits', often referred to as 'OECD Common Approaches'. These are essentially recommendations on how to integrate environmentally and socially responsible business

18. OECD, "Agreement reached at OECD to end export credit support for unabated coal-fired power plants", https://www.oecd.org/newsroom/agreement-reached-at-oecd-to-end-export-credit-support-for-unabated-coal-fired-power-plants.htm (2021)
19. Jessica Liao, "The Club-based Climate Regime and OECD Negotiations on Restricting Coal-fired Power Export Finance", Global Policy 12 (1): 40–50, https://doi.org/doi:10.1111/1758-5899.12894 (2021)
20. Vivid Economics, "UK Export Finance and Domestic Jobs", https://www.vivideconomics.com/casestudy/uk-export-finance-and-domestic-jobs/ (2020)

practices into ECAs' business operations by applying environmental and social due diligence.

In sum, the OECD Arrangement and OECD Common Approaches do not lead to sufficient ambition to fully align officially supported export finance with the Paris Agreement and the latest climate science.

Voluntary international agreements

Beyond the OECD Arrangement and OECD Common Approaches, there are a number of voluntary international environmental, social and human rights (ESHR) standards that some ECAs commit to, including:

- **Equator Principles.** Established in 2003 by a group of ten (mainly European) private banks, Equator Principles provide a risk management framework and are a set of voluntary guidelines "for determining, assessing and managing environmental and social risk in projects and are primarily intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making".[21] The Principles require classification of projects according to the severity of potential ESHR impacts. FIs projects which are classified as Category A and B (highest potential impacts) are examined during the application stage for potential environmental risks, which is typically done through environmental impact assessments conducted by third parties or local public authorities. In addition, these projects must also undertake enhanced reporting, and allow monitoring and site inspections for the duration of the financing provided. UKEF is one of the ECAs that is committed to these Equator Principles.
- **International Finance Corporation's (IFC) Environmental and Social Performance Standards.**[22] Identify the responsibilities and commitments of IFC's clients for managing

21. Equator Principles, "About", https://equator-principles.com/about/ (2020).
22. IFC, "Performance Standards", https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards (2021).

their ESHR risks. They include rules to identify, avoid, mitigate and manage these risks and to conduct the businesses in a more sustainable manner. These standards are mandatory for IFC clients. Some ECAs – including UKEF – commit to these standards voluntary.

- **World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines).**[23] Technical reference documents with general and industry-specific examples of 'Good International Industry Practice' and are referred to in the World Bank's Environmental and Social Framework as well as in the IFC's Performance Standards detailed above. They include the performance levels and measures that are normally acceptable to the World Bank Group, and that are generally considered to be achievable in new facilities at reasonable costs by existing technology. Some ECAs – including UKEF – commit to these guidelines voluntary.

However, committing to the above ESHR standards does not necessarily lead to a reduction or phase out of fossil fuel financing and/or increase in support of climate-friendly exports.[24] Moreover, a report by the United Nations Environment Program (UNEP)[25] argues that financial institutions such as ECAs commit to standards such as the Equator Principles for reputational reasons and risk management rather than to meaningfully contribute to a change in their business to support the climate.

Despite the general lack of binding international climate standards for ECAs, some ECAs (and/or their respective governments) have recently

23. IFC, "Environmental, Health and Safety Guidelines", https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines/ehsguidelines (2021).
24. Igor Shishlov, Anne-Kathrin Weber, Inna Stepchuk, Laila Darouich and Axel Michaelowa, "Study on external and internal climate change policies for export credit and insurance agencies", University of Zurich https://bit.ly/2R1GBA4 (2020).
25. UNEP "The Equator Principles: Do They Make Banks More Sustainable?", http://unepinquiry.org/wpcontent/uploads/2016/02/The_Equator_Principles_Do_They_Make_Banks_More_Sustain able.pdf (2016).

committed to take firmer action on reducing support for fossil fuel projects and increased financing for low-carbon and renewable energy sources. This includes three climate-related international agreements with voluntary participation.

- **Powering Past Coal Alliance (PPCA).**[26] ECAs in some high-income countries – including the UK – have committed to phasing out financial support for coal through the PPCA, a group of 165 countries, cities, regions and businesses who have pledged to end support for coal-fired power production.
- **Export Finance for Future (E3F).**[27] In April 2021, the E3F initiative was launched. E3F is a 'coalition of the willing' currently consisting of ten major European economies, which commits members to end support for thermal coal power and related infrastructure and foresees a review of and assessment how to phase out other fossil fuel-related officially supported export finance.
- **Statement on International Public Support for the Clean Energy Transition.**[28] Most recently, at COP26 the UK launched this, which commits signatories to end new direct public support for the international 'unabated' fossil fuels, except in limited and clearly defined circumstances, by the end of 2022. As of December 2021, the statement has been signed by 39 countries and financial institutions.

Yet, these three climate-related international agreements are still not in line with the latest 'Net Zero scenario' developed by the International Energy Agency (IEA), which calls for immediate end of

26. Powering Past Coal, https://www.poweringpastcoal.org/about/who-we-are (2021).
27. DG Tresor, "Seven countries launch international coalition "Export Finance for Future" (E3F)", https://www.tresor.economie.gouv.fr/Articles/2021/04/14/seven-countries-launch-international-coalition-export-finance-for-future-e3f-to-align-export-finance-with-climate-objectives (2021).
28. COP26, "Statement on International Public Support for the Clean Energy Transition" https://ukcop26.org/statement-on-international-public-support-for-the-clean-energy-transition (2021).

new fossil fuel supply developments, including natural gas without exceptions.[29] Moreover, the largest supporters of fossil fuels are either not on board with any of the three climate-related international agreements (for example, China, Japan and South Korea) or have committed to only end international support for fossil fuels while maintaining high levels of domestic support (for example, Canada). Finally, these three climate-related international agreements do not address other aspects of Paris alignment beyond fossil fuel support phase out.[30]

To sum up, ECAs as a class of government-backed FIs have a significant impact on climate change due to their continued support of fossil fuels. Moreover, despite the new commitments made at COP26, there is still a long way to go to fully align the international export finance system with the Paris Agreement.

29. IEA, "Net Zero by 2050 – A Roadmap for the Global Energy Sector", International Energy Agency, https://www.iea.org/reports/net-zero-by-2050 (2021).
30. Kate Cook and Jorge E. Viñuales "International obligations governing the activities of export credit agencies in connection with the continued financing of fossil fuel-related projects and activities", Oil Change International, http://priceofoil.org/content/uploads/2021/05/Legal-opinion-K.-Cook-_-J.-Vinuales-FINAL.pdf (2021).

Chapter 3:
Overview of UK Export Finance

Having established the role and climate impact of ECAs in Chapter Two, this chapter goes inside UKEF to unearth its organisational structure and the nature of the financial support it provides to UK exporters.

Overview of UKEF's operations

The world's oldest ECA, founded in 1919, the Export Credits Guarantee Department (ECGD), was originally established as a sub-agency of the Department of Overseas Trade for the specific purpose of stimulating recovery in Britain's export markets following the First World War.[31] The ECGD has operated under the name UK Export Finance (UKEF) since 2011.

UKEF operates as a government department, principally related to the Department for International Trade (DIT). On the one hand, UKEF has wide discretion on the types of projects that it supports and works in partnership with around 100 private FIs worldwide, including both lenders and insurers, and with other ECAs internationally. However, its broad policy framework is established by UK government legislation and various ministerial bodies, which is ultimately subject to oversight by the UK Parliament.

UKEF derives its current statutory authority from The Export and

31. UK Export Finance, "Performance highlights", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/809689/UKEF_Performance_Highlights_2018-19.pdf (2019).

Investment Guarantees Act (EIGA) of 1991, which has been modified on several occasions over the past three decades. According to the EIGA, UKEF's primary function is to support the exports of goods, services, and intangibles through loans, insurance and guarantees to UK exporters. As a semi-independent agency, the EIGA empowers UKEF to make arrangements considered to be in the interests of the sound financial management of its portfolio and to do so in a manner that UKEF finds appropriate, with the consent of relevant ministers and HM Treasury.

UKEF's core mission is "to ensure that no viable UK export fails for lack of finance or insurance, while operating at no net cost to the taxpayer".[32]

The highest recorded maximum exposure in 2020-2021 was £33.1 billion, against a maximum permissible level of £50 billion.[33] This corresponds to all cumulative commitments of UKEF (that is, 'stock reporting'). Over the course of 2020-2021, UKEF provided over £12.3 billion worth of financial support to over 500 UK exporting firms, mostly small and medium-sized enterprises (SMEs). This corresponds to new commitments of UKEF in 2020-2021 (that is, 'flow reporting').

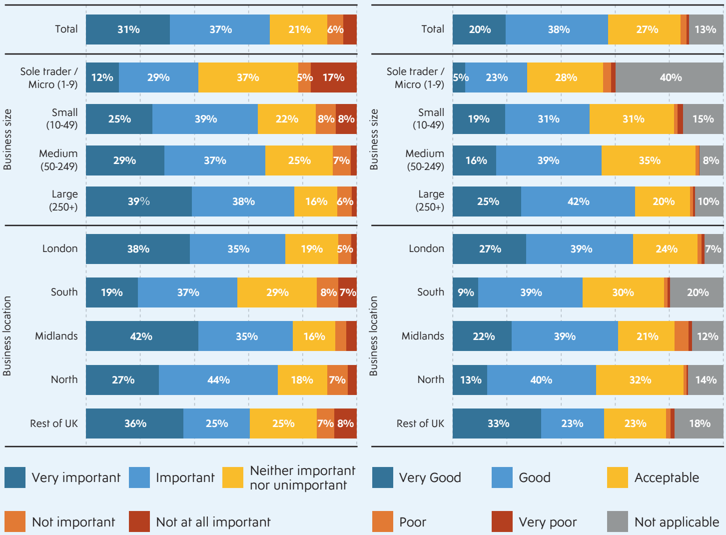
Through this financial support, UKEF aims to achieve three primary objectives: the acquisition of foreign contracts by exporters; the development of export projects through capital lending; and, the 'de-risking' of investments and transactions with overseas clients.

Similar to other ECAs, UKEF intervenes to support export projects where financing is unavailable in the private market, or where providing loans, insurance and guarantees would incur excessively high risks for private finance institutions. This financial support is vital for sustaining the business of UK exporting firms, who recognise the benefits of UKEF's support. Indeed, the polling conducted by Bright Blue[34] for this project

32. UK Export Finance, "About us", https://www.gov.uk/government/organisations/uk-export-finance/about (2021).
33. UK Export Finance, "Annual report and accounts 2020=2021", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/995841/UK_Export_Finance_Annual_Report_and_Accounts_2020_to_2021.pdf (2021).
34. Andrew Leming, "Toward Green Export Finance? Investigating the views of UK exporting firms towards UKEF", Bright Blue, http://brightblue.org.uk/toward-green-export-finance (2021).

found that among UK exporting firms that are familiar with UKEF, a majority say that such support is very important or important (68%) for sustaining their firms' exporting business. A majority of UK exporting firms that are familiar with UKEF (58%) approve of the quality of services rendered by UKEF, stating that their overall experience with accessing or applying for UKEF loans, insurance and guarantees has been very good or good. These results are shown in Chart 3.1 below.

Chart 3.1. Views of UK exporters that are familiar with UKEF on (i) the importance of UKEF's support (left chart) and (ii) quality of support provided by UKEF (right chart), by business size and location



Base: 642 UK exporting firms familiar with UKEF[35]

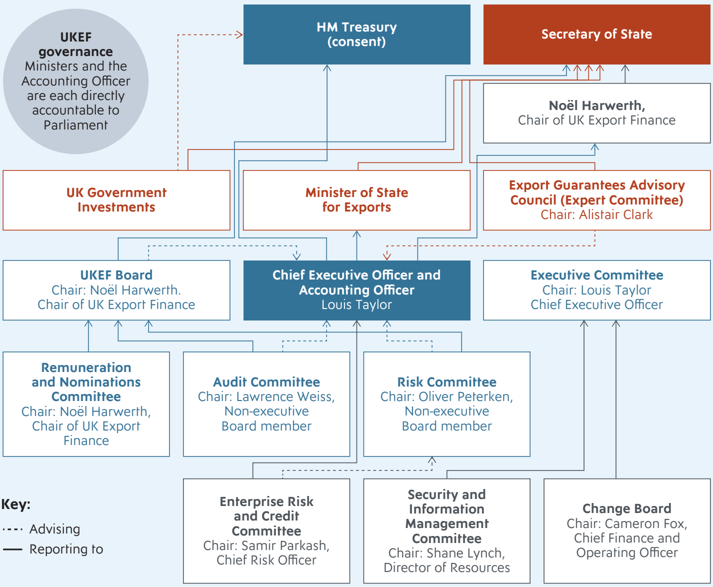
Inside UKEF

UKEF is subject to the policies and oversight of the UK government and, ultimately, the UK Parliament.

35. Ibid.

On strategic and operational matters UKEF is aligned with the Department for International Trade (DIT) for financing and export strategies, but it is a separate government department in its own right and reports to the Secretary of State for International Trade. On financing policies and support limits it has a close working relationship with HM Treasury (HMT), which provides its consent on these matters.[36] UKEF's internal governance structure is outlined in Chart 3.2 below.

Chart 3.2. UKEF's governance structure*



Source: UK Export Finance[37]
**Note that the names reflect positions held as of June 2021 and may have changed.*

The liaison between the Secretary of State for International Trade

36. UK Export Finance, "Annual report and accounts 2020=2021", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/995841/UK_Export_Finance_Annual_Report_and_Accounts_2020_to_2021.pdf (2021).
37. Ibid.

and UKEF is the Chair of UK Export Finance. The Chair is the highest ranking non-executive official within UKEF and serves as a non-executive member of the Department for International Trade Board, as well as an advisor to the Secretary of State for International Trade. As part of UKEF's routine operations, the Chair presides over the UKEF Finance Board, which receives input from various sub-units within UKEF on policy and strategic matters.

UKEF's executive leadership reports directly to the Secretary of State for International Trade and Investment, and the Minister for Exports.[38] The highest ranking executive official internally within UKEF is the Chief Executive Officer, who also serves as the organisation's Chief Accounting Officer. Like the Chair, UKEF's Chief Executive also acts as intermediary between UKEF and government departments, serving simultaneously as UKEF CEO and as a Director General, Executive Committee member, and Management Board member within the DIT. The Chief Executive reports to the Minister of State for Exports and HM Treasury and receives input from various sub-units within UKEF, specifically the Executive Committee (on which the CEO sits), the Finance Board, and the Export Guarantees Advisory Council.

UKEF's internal governance centralises policymaking within its Executive Committee. The Executive Committee advises the CEO on matters of UKEF's governance, allocation of resources, daily operations, and overall performance, among other policy areas.

UKEF's support to exporters

Delivered through private FIs, UKEF offers different forms of support (or 'facilities') to assist UK exporters developing projects overseas. These facilities at UKEF take the form of loans (financing), insurance and guarantees – as per UKEF's own classification – shown in detail in Table 3.2 below.

38. Tarsem Bhogal and Arun Trivedi, "International Trade Finance: A Pragmatic Approach", Springer Nature (2019).

Table 3.2. UKEF's current key facilities, as of December 2021[39]

Category	Products	Description
Loans (Financing)	Buyer Credit Facility	The Buyer Credit Facility provides a guarantee to a bank making a loan to an overseas buyer, so that capital goods, service and/or intangibles can be purchased.
	Direct Lending Facility	Under the Direct Lending Facility UKEF provides loans within an overall limit of £8 billion to overseas buyers, allowing them to finance the purchase of capital goods and/or services from UK exporters. Of that limit, £2 billion has been allocated to support clean growth projects.
	Lines of Credit	Through lines of credit UKEF can support a line of credit to provide the overseas buyers of capital goods, services and intangibles exported from the UK with access to finance made available by a UK bank.
	Standard Buyer Loan Guarantee	The Standard Buyer Loan Guarantee covers a loan to an overseas buyer to finance the purchase of capital goods, services and/or intangibles from a UK supplier.
Guarantees	Bond Support Scheme	The Bond Support Scheme provides partial guarantees to banks in support of UK exports to help banks meet demand for contract bonds.
	Export Development Guarantee	The Export Development Guarantee (EDG) helps companies who export from, or plan to export from the UK access high value loan facilities for general working capital or capital expenditure purposes.
	Export Working Capital Scheme	The Export Working Capital Scheme helps UK exporters access working capital finance for specific export-related contracts.

39. UK Export Finance, "Our products", https://www.gov.uk/government/collections/our-products (2021).

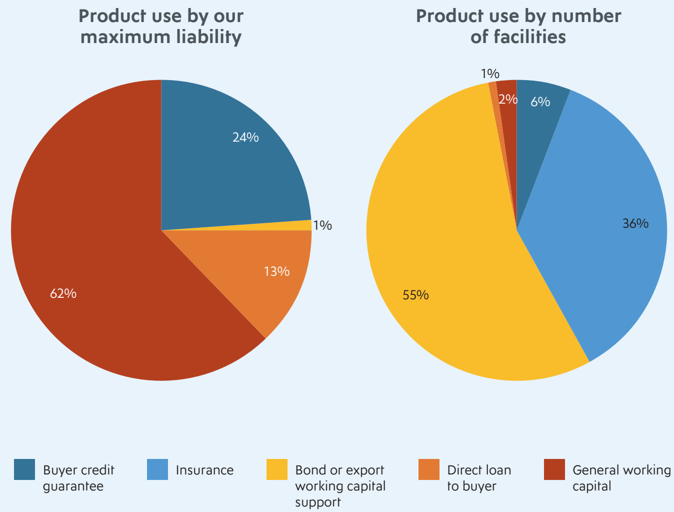
Category	Products	Description
	General Export Facility	The General Export Facility (GEF) provides partial guarantees to banks to help UK exporters to gain access to trade finance facilities.
Insurance	Bond Insurance	The Bond Insurance Policy protects UK exporters against demands for payment under a bond or a counter-guarantee that is either unfair or caused by political events.
	Export Insurance	The Export Insurance Policy offers cover against the risk of: (i) not being paid under an export contract, or (ii) not being able to recover the costs of performing that contract because of certain events which prevent its performance or lead to its termination.
	Overseas Investment Insurance	The Overseas Investment Insurance (OII) policy can protect a UK investor against potential losses on overseas investments due to defined political events that may arise in a non-OECD country.

To generate returns to UK taxpayers, UKEF charges varying rates of commercial interest on the loans, insurance and guarantees provided to exporters and sets risk premiums on a case-by-case basis. UKEF's overall risk appetite policy states that there should be less than a 1% chance of losses over 10 years exceeding £5 billion. However, its specific risk appetite criteria are according to the recipient's export country, which is set by UKEF's country cover policies.[40]

Chart 3.3 below shows which of UKEF's facilities were most frequently accessed by UK exporting firms in 2020-21, the year for which the most recent figures are available.

40. UK Export Finance, "Cover policy and indicators", https://www.gov.uk/guidance/country-cover-policy-and-indicators#a-to-z-list-of-country-cover-policies-and-indicators (2021).

Chart 3.3. UKEF's product use by liability and number of facilities, 2020-2021



Source: UK Export Finance[41]

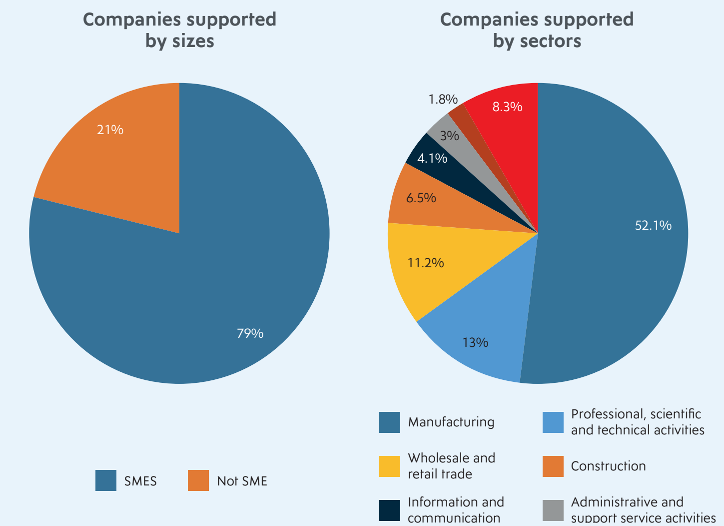
As shown in Chart 3.3 above, in the 2020-2021 financial year, the overwhelming majority (91%) of UKEF support was accessed through two specific facilities, with 55% of exporters accessing bond or export working capital support and around 36% of exporters accessing insurance facilities. However, strikingly, the actual amounts of support provided through these two facilities comprised only 1% of UKEF's total liabilities for the 2020-2021 financial year. In contrast, only 2% of UKEF support was accessed through facilities that support general working capital, though this constituted a majority of around 62% of UKEF's maximum liabilities for 2020-21. Within this category of

41. UK Export Finance, "Annual report and accounts 2020=2021", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/995841/UK_Export_Finance_Annual_Report_and_Accounts_2020_to_2021.pdf (2021).

General Working Capital, it was Export Development Guarantee which was the highest value product (£7.6 billion).

In terms of the size of exporting business supported, this is shown in Chart 3.4 below. Roughly four out of five (79%) businesses supported by UKEF in 2020-2021 were SMEs, with the remaining 21% classified as large companies.

Chart 3.4. UKEF's financial support to companies, by size and sectors, 2020-2021



Source: UK Export Finance[42]

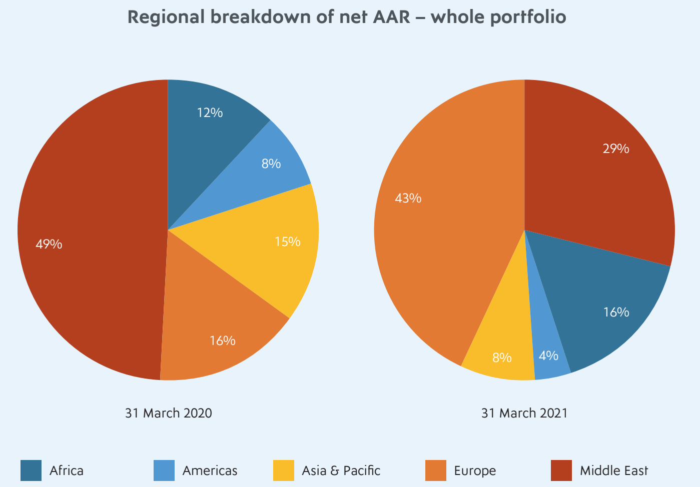
In terms of sectors supported by UKEF's loans, insurance and guarantees facilities, they are concentrated in a handful of sectors, as Chart 3.4 above shows. Around half (52%) of the exporting companies supported by UKEF were concentrated within the manufacturing sector,

42. Ibid.

followed by the professional, scientific, and technical services (13%) and wholesale and retail trade (11%).

In terms of geography, as demonstrated in Chart 3.5 below, there was a significant change between 2020 and 2021 as UKEF significantly increased its UK exposure through Export Development Guarantee (EDG), including large guarantees to the automotive industry related to transitioning towards electric vehicles. Excluding these new UK exposures, the Middle East continues to account for the largest share of UKEF's portfolio, as of 31 March 2021. This is mainly related to support of UK exports to Oman, Dubai, Iraq and Saudi Arabia. Exposure to Africa represented £2.1 billion (16%) in 2021, slightly up from the previous last year.

Chart 3.5. UKEF's amount at risk (AAR) by geography, 2020 and 2021



Source: UK Export Finance[43]

43. Ibid.

While the eligibility criteria for accessing UKEF facilities varies according to the specific loans, insurance and guarantees accessed, there are conditions which apply across all facilities. Overseas banks and entities which enter contracts with UKEF and UKEF-supported exporters must be verified and not subject to sanctions or other financial restrictions.

Additionally, eligibility for UKEF facilities is also dependent on all applicants complying with anti-bribery and corruption policies, as well as Environmental, Social and Human Rights (ESHR) due diligence processes. There are also requirements on the sourcing of individual export project components, with some exporters required to have physical premises in the UK, Isle of Man or Channel Islands and have at least 20% of the export contract or service rendered being within the UK.

This chapter presented an overview of UKEF's operations, its governance, and support provided to UK exporters in recent years. It demonstrated that UKEF provides a wide array of products and supports exports in a variety of sectors and to various geographies.

Chapter 4:
Climate-related processes and policies in UKEF

The last chapter revealed the structure of – and support provided by – UKEF. In this chapter, we assess UKEF's record, processes and policies related to climate change.

UKEF's climate-related track record

In 2021, the UK became the first country to actually implement – not just commit to – a phase out of most loans, insurance and guarantees for the development of fossil fuel export projects overseas.[44] While the phase out actually applies across all UK overseas spending, lending and aid, this recent policy was especially focused on reforming UKEF, which has come under intense criticism recently for financing a variety of fossil fuel projects overseas.[45]

Indeed, UKEF's support for exporters within the energy sector up to now has been heavily oriented toward carbon-intensive projects. According to the House of Commons Environmental Audit Committee,[46] between 2013 and 2018, UKEF provided £2.5 billion for energy projects (equivalent to around 21% of all UKEF financing), with only £104 million going to low-carbon or renewable energy projects, as shown in Table 4.1 below.

44. UK Government, "Aligning UK international support for the clean energy transition," https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/972811/uk-support-clean-energy-transition-consultation-response.pdf (2021).
45. Julian Ambrose, "Government 'reckless' over fossil fuel projects overseas, says Labour", The Guardian, 19 November, 2020.
46. Environmental Audit Committee, "Report on UK Export Finance: Summary", https://publications.parliament.uk/pa/cm201719/cmselect/cmenvaud/1804/180402.htm (2019).

Table 4.1. UKEF energy financing[47]

	Maximum Liability (£m)					
Export Type	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**Total**
Total Support by UKEF	2.272	2.730	1.793	2.966	2,530	12.291
Total support to energy sector	392	466	606	919	250	2.633
Proportion of total support given to the energy sector	17%	17%	34%	31%	10%	21%
Low- or Middle-Income Countries: Fossil Fuels	383	437	585	777	178	2,360
High-Income Countries: Fossil Fuels	9	26	14	117	3	169
Low- or Middle-Income Countries: Renewables	<0.5	<0.5	0	0	1	1
High-Income Countries: Renewables	<0.5	3	7	25	68	103

As recently as June 2020, for example, UKEF approved a £1 billion financing package for a controversial liquefied natural gas (LNG) project in Mozambique.[48]

Looking beyond the energy sector, UKEF provided a total of £12.3 billion worth of export credits in 2020-2021 and, as Chapter Three indicated, many of the companies supported are in potentially high-emitting, non-energy sectors, such as manufacturing, construction, mining and quarrying.[49]

Generally, UKEF's actual annual reports do not provide for a clear breakdown into fossil fuel and renewable energy support. UKEF simply does not operate a comprehensive GHG reporting system,

47. Ibid.
48. Emma Gatten and Gordon Rayner, "UK agrees $1bn backing to Mozambique gas pipeline despite environmental concerns", The Telegraph, 26 June, 2020.
49. UK Export Finance, "Annual report and accounts 2020=2021", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/995841/UK_Export_Finance_Annual_Report_and_Accounts_2020_to_2021.pdf (2021).

although has committed to do so in the future, as will be discussed below. Evaluating the climate impact of UKEF can therefore be only done indirectly by looking at the energy financing breakdown provided by House of Commons Environmental Audit Committee, as illustrated in Table 4.1 above.

Box 4.1. UKEF's legal mandate

Recent debates have focused on whether UKEF's legal mandate should be revisited in light of climate change and the urgent need for decarbonisation.

The Export and Investment Guarantees Act 1991 (EIGA), described in Chapter Three, contains no provisions addressing the ESHR concerns that arise with the provision of export finance, let alone a precise set of standards and procedures that would guide UKEF in evaluating the compatibility of specific types of projects with the Paris Agreement.[50]

A key recommendation emerging from the House of Commons Environmental Audit Committee's recent inquiry was that the Government should legislate to align UKEF's legal mandate with the UK's broader climate change commitments and require UKEF to consider renewable alternatives when considering energy financing support.[51] The Government's response to the House of Commons Environmental Audit Committee's recommendations emphasised that UKEF support is 'demand-led' and primarily determined by the eligibility of project applications.

50. House of Commons Environmental Audit Committee, "Written evidence submitted by NS Ghaleigh, Senior Lecturer in Climate Law, School of Law, University of Edinburgh", http://data.parliament.uk/WrittenEvidence/CommitteeEvidence.svc/EvidenceDocument/Environmental%20Audit/UK%20export%20finance/Written/94918.html (2019).
51. House of Commons Environmental Audit Committee, "Inquiry on UKEF: Conclusions and recommendations", https://publications.parliament.uk/pa/cm201719/cmselect/cmenvaud/1804/180408.htm#_idTextAnchor069 (2019).

However, UKEF's selective policy shifts on energy financing in recent years, as described in detail below, demonstrate that restrictions can be put in place without any supposed conflict with the legal mandate.

Should the UK Government decide to move to modify UKEF's legal mandate, these efforts should focus on Part 1 'Powers of the ECGD', Sections 5 and 6 of the EIGA, where the ban on fossil fuel (and related value chains) loans, insurance and guarantees could be codified.

UKEF's climate assessment and policymaking process

So, what are the current processes for UKEF to assess and improve support on climate? As we have already argued, UKEF's overall transparency on this matter is rather low, with few efforts made to provide comprehensive disclosures of its policymaking, financing decisions and loan books.[52]

In the absence of independent evidence on the internal dynamics of UKEF's climate policy formation, the most detailed information can be derived from the minutes of the bimonthly meetings of the Executive Committee, as described in Chart 3.2 earlier, which are published on UKEF's website.[53]

UKEF's Executive Committee is advised on a range of operational matters by the UKEF Finance Board. According to UKEF's Finance Board Operating Framework, the Finance Board is composed of both non-executive officials and ex-officio members who advise on a range of operational matters.[54] As independent evidence on the Finance Board's role in UKEF policy formation is also unavailable, the published minutes from its meetings are again the most detailed records available.

Our review of the minutes from November 2018 to November 2020 of both the Executive Committee and the Finance Board show that climate

52. Cynthia O'Murchu. "UK export agency needs more transparency, campaigners say," https://www.ft.com/content/c94f5ef7-76ed-424f-b5d5-b70118614f5d, (2020).
53. UK Export Finance, "Minutes of the Executive Committee for 2020", https://www.gov.uk/government/publications/uk-export-finance-executive-committee-minutes-2020 (2020).
54. UK Export Finance, "UKEF Board Operating Framework," https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/528682/UK_Export_Finance_-_Board_Operating_Framework_-_June_2016.pdf (2016).

has featured rather infrequently in the discussions and action items.

Within UKEF, responsibility for overarching compliance with Environmental, Social and Human Rights (ESHR) principles resides with the Export Guarantees Advisory Council (EGAC).[55] The primary role of the EGAC is to "provide advice on the ethical policies applied by UKEF in the conduct of its business related to bribery and corruption, ESHR risks and impacts of the projects which it supports, sustainable lending and transparency (including freedom of information requests)".[56]

UKEF has regarded the EGAC as a key element of its environmental compliance and review strategies to date. According to its Annual Report from 2019-2020, UKEF has recently strengthened the EGAC's advisory role on these matters with the appointment of a Chair of the EGAC to the UKEF Board and two climate experts to contribute expertise on climate change policy and governance.[57] While the EGAC has no legally-binding authority to advise on UKEF's support for specific transactions and projects, it does review a limited number of Category A and Category B projects – that is, projects with the highest potential ESHR risks, as described in Chapter Two under the Equator Principles.

The Environmental and Social Risk Management Team (E&S Team) of UKEF is responsible for carrying out ESHR screening, classification and review of projects and undertaking ESHR monitoring after support has been provided. Within UKEF, the E&S Team thus has the most detailed information on climate impacts of UKEF's loan books and guarantees through its role in screening and monitoring of potential and previously supported UKEF projects.[58]

Last but not least, at the end of 2020, UKEF established a new policy unit that has a strong focus on climate change: the Strategy, Policy and

55. UK Export Finance, "Export Guarantees Advisory Council Terms of Reference," https://www.gov.uk/government/organisations/export-guarantees-advisory-council/about/terms-of-reference#members-and-chairperson (2021).
56. UK Export Finance, "Minutes for the Export Guarantees Advisory Council," https://www.gov.uk/government/organisations/export-guarantees-advisory-council/about/our-governance#minutes (2021).
57. UK Export Finance, "Annual Reports and Accounts 2019-2020", p. 101.
58. UK Export Finance, "Policy and practice on ESHR due diligence and monitoring," https://www.gov.uk/government/publications/uk-export-finance-environmental-social-and-human-rights-policy/policy-and-practice-on-environmental-social-and-human-rights-due-diligence-and-monitoring (2020).

Climate Directorate (SPoCC). The SPoCC has been formed to provide "greater senior-level influence and increased resources" on key climate-related policy areas. The SPoCC's mandate also included defining and leading the climate change strategy and policy of UKEF, described in detail below, which was launched in September 2021.

UKEF has redefined the roles of other strategy and policy personnel to incorporate climate-related considerations and established a new position, Head of Climate Change, to lead on climate policy formation and strategy across a number of areas. This includes the disclosures related to climate impacts and risks, intra-government coordination around COP26, UKEF actions on compliance with Sustainable Development Goals (SDGs) targets, and engagement with civil society, NGOs, international ECAs and FIs on top of UKEF's EGAC.

UKEF's Climate Change Strategy

Beyond the phase-out for financing all new fossil fuel exporting projects, what are the specific climate policies UKEF has? In September 2021, in the run up to COP26, UKEF published a comprehensive Climate Change Strategy for 2021-2024,[59] developed under the lead of the newly created SPoCC, as explained above. The strategy has an overarching objective of net zero emissions by 2050 and is built on five strategic pillars:

1. Increasing support for clean growth and climate adaptation.
2. Reducing GHG emissions from its financial portfolio.
3. Improving understanding and mitigation of climate-related financial risks.
4. Reporting against climate-related commitments, enhancing transparency and disclosure.
5. Leading internationally, encouraging others to follow UKEF's lead and set ambitious climate targets.

59. UK Export Finance, "Climate Change Strategy", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1019141/UKEF_Climate_Change_Strategy_2021.pdf (2021).

Each pillar of this new strategy is illustrated in Figure 4.1 below.

Figure 4.1. UKEF Climate Change Strategy

Net Zero by 2050

We will support UK exporters and suppliers through the global transition to net zero, embedding consideration of climate change into our business.

Strategic Pillars	**By increasing our support** to clean growth and climate adaptation.	**By reducing** our portfolio greenhouse gas emissions.	**By understanding** and mitigating our climate-related financial risks.	**Through transparency** and disclosure.	**By providing international leadership** on climate change amongst export credit agencies and relevant financial institutions.
Description	We will increase our support for the clean growth, climate adaptation and resilience sectors, supporting global mitigation and adaptation efforts.	We will build our understanding of the greenhouse gas emissions impact of our support and set interim targets to ensure we are on track to reach net zero greenhouse gas emissions by 2050.	We will assess the potential for climate-related financial risks within the existing portfolio and from new deals, and will take actions to mitigate these risks.	We will report against our climate-related commitments, enabling our stakeholders to monitor our progress.	We will encourage our peers to follow our lead in setting stretching climate ambitions, raising the bar for export finance internationally.

Enablers

Governance – We will continue to review and enhance our governance by embedding climate change-related responsibilities across the department including at senior management and Board level.

Decision-making – We will continue to take account of climate change in our decision-making relating to the support we provide to exporters.

Change Management – We will engage our staff in the implementation of this strategy so that they are ready to implement the changes it will bring to our organisation and are empowered to adapt accordingly.

Learning & development of our people – We will ensure our staff have the appropriate knowledge, training and awareness to deliver this strategy across our organisation.

Stakeholder engagement – We will engage with our external stakeholders; including business, non-governmental organisations and civil society, to help shape and support delivery of our strategy.

Source: UK Export Finance[60]

We now describe the specific recent policies and facilities UKEF has introduced under these five pillars.

60. UK Export Finance, "Climate Change Strategy", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1019141/UKEF_Climate_Change_Strategy_2021.pdf (2021).

Pillar 1: Increasing support to clean growth and climate adaptation

UKEF has recently launched two dedicated facilities to support low carbon projects:

- **The Clean Growth Direct Lending Facility (CLGF).** This £2 billion facility was added to UKEF's offerings in late 2020 to bolster its promotion of green and low-carbon exports from UK exporters. Beyond the phase out of fossil fuel finance and insurance, the CGLF is probably the most important example of UKEF's alignment with the UK Government's climate change commitments to date. While few details are provided on the precise terms and conditions of lending under this scheme, UKEF indicates that the CGLF may offer financing for a broad range of export projects defined as beneficial for lowering GHG emissions. This includes projects related to the development of low-carbon and renewable energy infrastructure, transportation infrastructure, energy efficiency products, climate change mitigation, water treatment and sustainability, and land restoration and conservation.
- **Transition Export Development Guarantee (TEDG).** This facility was launched in 2021 to support UK exporting companies with their energy business transition. Since UKEF no longer as of 2021 provides support for the fossil fuel energy sector overseas, the eligibility of companies engaged in fossil fuel businesses to apply for the Transition Export Development Guarantee will be assessed based on a revenue threshold test. This test defines whether a given company is eligible for TEDG and whether it must demonstrate climate transition commitments or not. Some observers have expressed concern about it being a potential loophole for fossil fuel companies.[61] At the time of writing, no further information on the

61. Felix Thomson, "Campaign groups to keep a "close eye" on rollout of new UKEF transition guarantee scheme", GT Review, https://www.gtreview.com/news/europe/campaign-groups-keeping-a-close-eye-on-rollout-of-new-ukef-transition-guarantee-scheme/ (2021).

applications to the facility was available and the actual impact of this new facility therefore remains to be seen.

Finally, according to UKEF, "50% of the current business development pipeline is derived from clean growth sectors",[62] although no further details have been disclosed. It is unclear whether this figure refers to all of UKEF's facilities and whether it refers to the 2020-2021 reporting period.

It is also important to note that currently UKEF does not provide a clear list of activities and corresponding performance thresholds for its different facilities – such as, for example, those of the EU Taxonomy for Sustainable Activities, which is described in Box 4.2 below.

Box 4.2. The EU Taxonomy for Sustainable Activities

The EU Taxonomy for Sustainable Activities is a classification system, which establishes a list of environmentally sustainable economic activities. Its main role is to provide companies, investors and policymakers with clear definitions of economic activities that can be considered environmentally sustainable. The Taxonomy Regulation established six environmental objectives:

- Climate change mitigation
- Climate change adaptation
- The sustainable use and protection of water and marine resources
- The transition to a circular economy
- Pollution prevention and control
- The protection and restoration of biodiversity and ecosystems

Under the Taxonomy Regulation, the EU Commission came up the actual list of environmentally sustainable activities in different sectors by defining technical screening criteria for each environmental objective.[63]

62. Ibid.
63. European Commission, "EU taxonomy for sustainable activities", https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en (2021).

Pillar 2: Reducing portfolio GHG emissions

At the moment, UKEF does not operate a GHG accounting system, and it is therefore not possible to assess the evolution of either its absolute GHG emissions or the GHG intensity of its portfolio.

However, under its new Climate Change Strategy, UKEF commits to net zero GHG emissions across scopes 1, 2 and 3 by 2050. The different scopes of emissions, employed by a variety of projects or organisations, are explained in Box 4.3 below.

Box 4.3. The common scope of GHG emissions

Determining the emissions from a project or organisation is a critical task to decide which emissions are included in calculations and which ones are excluded. The GHG Protocol's Corporate Standard[64] run by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD) generally divides emissions into three groups:

- **Scope 1:** Direct GHG emissions from owned or controlled sources.
  - Example: Emissions produced by the combustion of fossil fuels in the organisation's facility (for example, fossil fuel combustion in own operations).
- **Scope 2:** Indirect GHG emissions from the consumption of purchased energy.
  - Example: Purchase of electricity or heat (for example, consumption of electricity in the offices offices).

64. The GHG Protocol Corporate Accounting and Reporting Standard provides requirements and guidance for companies and other organizations preparing a corporate-level GHG emissions inventory. It is the most used GHG accounting standard in the world. For more details see: https://ghgprotocol.org/corporate-standard

- **Scope 3:** Other indirect GHG emissions that occur in the value chain of the reporting organisation, including both upstream and downstream emissions.
  - Example: Merchandise transport and employee commuting, but for financial institutions such as UKEF the most significant category are their managed assets and investments.

While for industrial companies – such as, for example, a cement producer – scope 1 and 2 emissions are usually the most important, for FIs these emissions may be dwarfed by the magnitude of scope 3 emissions, – that is, emissions emanating from financed assets. Scope 3 emissions are usually the most difficult to calculate because they require information from entities outside of the reporting organisation.

In 2021-2022, UKEF will determine its scope 1 and 2 emissions, as well as scope 3 emissions, starting with the highest emitting projects. At the same time, UKEF will develop interim decarbonisation targets on the pathway towards net zero, although there is unfortunately no mention in the Climate Change Strategy of establishing a Science Based Target (SBT), described in Box 4.4. below.

Box 4.4. Science Based Targets Initiative (SBTi)

The Science Based Targets Initiative (SBTi)[65] is a partnership between Carbon Disclosure Project (CDP), the United Nations Global Compact (UNGC), the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF) that aims at supporting companies to set targets with a clearly defined path to reduce emissions in line with the Paris Agreement. Science Based Targets (SBTs) are defined as targets that are in line "with what the latest climate science says is necessary to meet the goals of the Paris Agreement".

Pillar 3: Understanding and mitigating climate-related financial risks

Since July 2020, UKEF requires a climate change risk assessment within ESHR screening conducted by the E&S Team for all Category A and Category B projects as per Equator Principles, which are discussed in detail earlier in Chapter 2.

For this assessment, UKEF differentiates between physical risk and transition risk. Physical risk is the impacts to liabilities and financial assets from climate- and weather- related events that may damage assets or disrupt international trade. Transition risk is financial risks resulting from the transition to a low-carbon economy, which may result in readjustment in asset value as well as potential 'stranded assets'.

Under its new Climate Change Strategy, UKEF commits to "Appropriately and proportionately take account of climate- related risk across our credit risk assessments for all our products to ensure we are responsibly managing public money." The Climate Change Strategy mentions that initially this assessment will be qualitative in nature, but will move towards more quantitative assessment over time.

Pillar 4: Transparency and disclosure

UKEF made its first disclosure in line with the recommendations of

65. Science Based Targets, https://sciencebasedtargets.org/ (2021).

the Task Force on Climate-related Financial Disclosures (TCFD), as explained in Box 4.5 below, in its 2020-21 Annual Report. UKEF was the first ECA worldwide to do this. This disclosure, however, was qualitative in nature: so it did not provide quantitative information, such as the exposure to fossil fuel related assets, absolute or relative GHG emissions or sectoral emissions reduction targets. Within its Climate Change Strategy, UKEF committed to provide the first quantitative disclosure in its second TCFD report for 2021-22, although it was not indicated what exact quantitative information would be provided.

Box 4.5. Task Force on Climate-related Financial Disclosures (TCFD)

The TCFD[66] run by the Financial Stability Board (FSB) provides recommendations to disclose information across four key pillars:

- **Governance:** Disclose the organisation's governance around climate-related risks and opportunities.
- **Strategy:** Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.
- **Risk management:** Disclose how the organization identifies, assesses, and manages climate-related risks.
- **Metrics and targets:** Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

While initially voluntary, these recommendations are being increasingly incorporated into mandatory regulations in many countries. The UK has become the first G20 country to make TCFD disclosures mandatory for large companies effective April 2022.[67]

66. TCFD, https://www.fsb-tcfd.org/ (2021).
67. UK Government, "UK to enshrine mandatory climate disclosures for largest companies in law", https://www.gov.uk/government/news/uk-to-enshrine-mandatory-climate-disclosures-for-largest-companies-in-law (2021).

Pillar 5: Providing international leadership on climate change among ECAs and relevant FIs

According to its Climate Change Strategy, UKEF is working closely with like-minded ECAs and their respective governments with regards to updating the OECD Coal-Fired Electricity Generation Sector Understanding (CFSU) that restricts ECAs' support to coal projects in the power sector. As discussed in detail in Chapter Two, the OECD discussions culminated with the update of the CFSU to fully phase out ECAs' support to coal-fired electricity generation without CCS. However, some major exporters, such as China, are not members of the OECD and thus not subject to these restrictions. Moreover, there are no such restrictions on oil and gas sectors under the OECD Arrangement.

In the run up to COP26, the UK Government launched an initiative together with the European Investment Bank (EIB) to convince governments of both developed and developing countries as well as public finance institutions to sign a statement on aligning public finance with the clean energy transition. As discussed in Chapter Two, at COP26 the UK launched the Statement on International Public Support for the Clean Energy Transition,[68] which commits its signatories to end new direct public support for the international 'unabated' fossil fuels, except in limited and clearly defined circumstances, by the end of 2022. As of December 2021, the statement has been signed by 39 countries and financial institutions.

UK exporters' views toward UKEF's climate policies

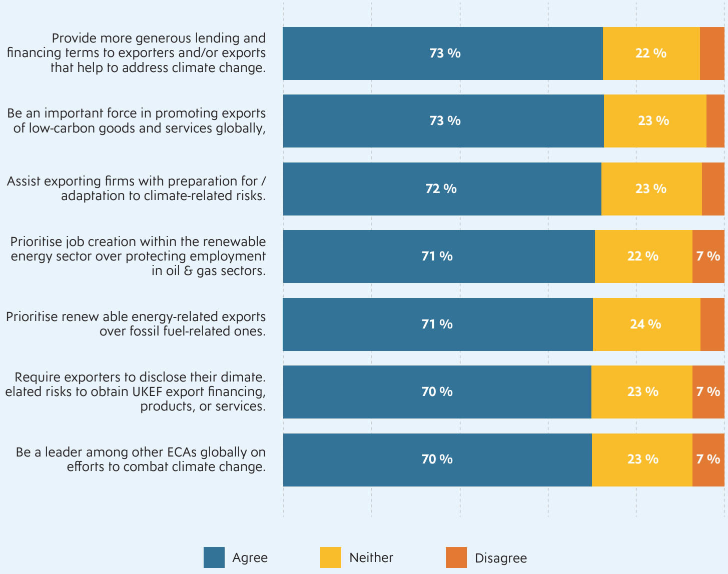
Thus far, we have outlined the climate-related processes and policies of UKEF. The leading policy is the phase-out of support for fossil fuel projects overseas. But there is a need – and a desire from exporters, in fact – for UKEF to do more on climate.

Our polling for this project found evidence of strong majority support

68. COP26, "Statement on International Public Support for the Clean Energy Transition" https://ukcop26.org/statement-on-international-public-support-for-the-clean-energy-transition (2021).

for a wide range of transformative climate policy actions by UKEF, as illustrated in Chart 4.1 below.

Chart 4.1. UK exporter views on potential climate policies at UKEF



Base: 750 UK exporting firms[69]

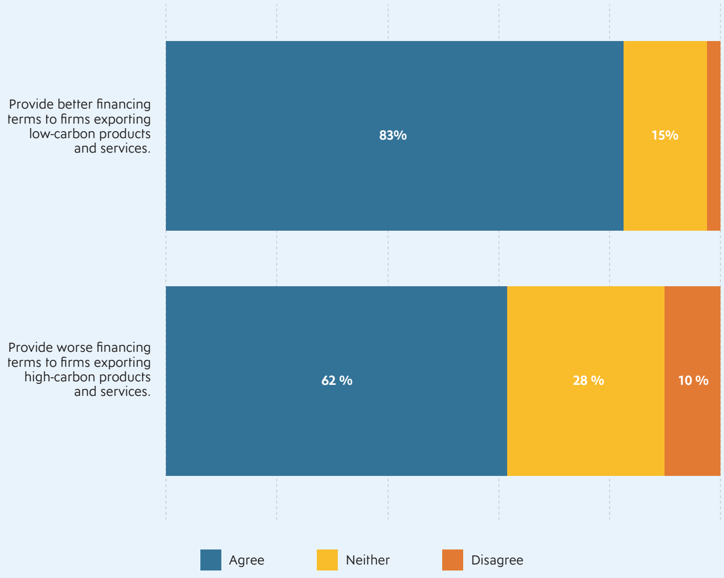
A clear majority of all UK exporters – that is, both those that had prior experience and knowledge of UKEF and those that did not – would like for UKEF to be an important force for promoting low-carbon exports globally (73%) and providing more generous financing terms to exporting firms that help to address climate change (73%). Moreover, the majority of all UK exporters support: UKEF assisting exporting firms with preparation for and adaptation to climate-related risks

69. Andrew Leming, "Toward Green Export Finance? Investigating the views of UK exporting firms towards UKEF", Bright Blue, http://brightblue.org.uk/toward-green-export-finance (2021).

(72%); prioritising job creation within the low-carbon and renewable energy sector over protecting employment in the oil and gas sectors (71%); and, leading among other ECAs on efforts to combat climate change (70%). These majorities persisted across exporting firms with different attributes. Overall, these findings show that UKEF has a strong mandate for pursuing bolder policies on climate.

Furthermore, our polling also examined all UK exporting firms' views on the type of financing arrangements that they believe UKEF should introduce to enable better and higher support for all low-carbon products and services. This is highlighted in Chart 4.2 below.

Chart 4.2. Support for UKEF incentive structures



Base: 750 UK exporting firms[70]

70. Ibid.

Around four out of five of all UK exporting firms (83%) favour UKEF providing better financing terms for exports of low-carbon goods and services, with only a handful of exporting firms (2%) expressing opposition, indicating a very high level of support. At the same time, fewer exporting firms (62%) state that UKEF should provide worse financing terms for exports of high-carbon goods and services, with a slightly larger percentage (10%) opposed and over one in four (28%) remaining neutral.

This polling reveals that all UK exporting firms are more likely to favour UKEF proactively offering incentives for low-carbon exporters rather than penalising high-carbon exporters.

This chapter has discussed the climate change impacts of UKEF and its related policies and processes. In sum, while historically UKEF provided significant support to the fossil fuel related exports, thus contributing substantially to climate change, it has made significant improvements in the past few years, most notably by phasing out support to all fossil fuels with some exceptions, rallying other countries to join this commitment at COP26 and adopting a comprehensive Climate Change Strategy. However, there is still room for improvement to fully align UKEF's operations with the Paris Agreement and respond to increasing demand from exporters for more climate action. Remaining gaps in Paris alignment of UKEF are discussed in detail later in Chapter Six.

Chapter 5: Core features of a Paris-aligned ECA

Having established in the previous chapter that UKEF has been making welcome changes to reduce its climate impact, but it is still insufficient to be fully aligned with the Paris Agreement, this chapter outlines in detail what the attributes of a model ECA which is fully Paris Aligned would be.

So, what does it mean for an FI, and ECAs in particular, to align their activities with the Paris Agreement? There are various interpretations of what it means for an institution to have Paris Alignment. Typically, these interpretations revolve around Article 2.1c of the Paris Agreement, detailed in Box 1.1 much earlier. Yet both public and private FIs interpret Article 2.1c very differently, unsurprisingly. Critically, none of the interpretations developed until 2021 really specifically provide a tailored methodology for ECAs, which by nature of their financing instruments and organisational structure substantively differ from other FIs such as public development banks or institutional investors.

Responding to this gap, Perspectives Climate Research, a non-profit research organisation, developed an original methodology to assess the Paris alignment of ECAs.[71] A full explanation of the assessment methodology is available in in the Annex of this report. It was tested on

71. Igor Shishlov, Philipp Censkowsky and Laila Darouich, "Aligning Export Credit Agencies with the Paris Agreement", Perspectives Climate Research, https://bit.ly/38nhMqz (2021).

a pilot case study on Germany[72] and then extended to case studies on the Netherlands,[73] Japan[74] and Canada.[75] The assessment methodology builds on the structure and rationale of the environmental think tank E3G´s Public Bank Climate Tracker[76] matrix which, in turn, is based on the six building blocks of the Paris Alignment Working Group (PAWG)[77] by major multilateral development banks (MDBs). However, this ECA assessment methodology does notably differ from these two approaches.

The Perspectives Climate Research assessment methodology has five dimensions of Paris Alignment, which are differently weighted.

1. **Transparency.** Financial and non-financial disclosures. Weighted 20%.
2. **Mitigation I.** Ambition of fossil fuel exclusion or restriction policies. Weighted 40%.
3. **Mitigation II.** Climate impact of and emission reduction targets for all activities. Weighted 20%.
4. **Climate finance.** Positive contribution to the global climate transition. Weighted 10%.
5. **Engagement.** Outreach and 'pro-activeness' of the ECA and its governments. Weighted 10%.

Each dimension is weighed according to a choice of weights which reflects a careful consideration of climate priorities and is based on the expertise of more than a dozen experts from research and civil society

72. Laila Darouich, Philipp Censkowsky and Igor Shishlov, "Paris Alignment of Export Credit Agencies: the case of Germany (Euler Hermes)", Perspectives Climate Research, https://bit.ly/3qpfjWO (2021).
73. Philipp Censkowsky, Igor Shishlov and Laila Darouich, "Paris Alignment of Export Credit Agencies: the case of the Netherlands (Atradius Dutch State Business). Perspectives Climate Research, https://bit.ly/3wvLLb9 (2021).
74. Laila Darouich, Igor Shishlov and Philipp Censkowsky, "Paris Alignment of Export Credit Agencies: the case of Japan (NEXI and JBIC)." Perspectives Climate Research, https://bit.ly/3EVCTyz (2021).
75. Philipp Censkowsky, Igor Shishlov and Laila Darouich, "Paris Alignment of Export Credit Agencies: the case of Canada (Export Development Canada). Perspectives Climate Research, https://bit.ly/3uXqjwQ (2022).
76. E3G, "Public Bank Climate Tracker Matrix", https://www.e3g.org/matrix/ (2021).
77. World Bank, "The MDBs' alignment approach to the objectives of the Paris Agreement: working together to catalyse low-emissions and climate-resilient development", https://thedocs.worldbank.org/en/doc/784141543806348331-0020022018/original/JointDeclarationMDBsAlignmentApproachtoParisAgreementCOP24Final.pdf (2018).

organisations. This approach allows emphasis on some dimensions over others. As a function of this, mitigation is weighted relatively more strongly than disclosure or engagement.

Each of the five dimensions is underpinned by three to five key questions, meaning there are a total of 18 questions. Each question is underpinned by four specific benchmarks, meaning there are in total 72 benchmarks.

The benchmarks attribute one out of four labels of Paris alignment and a corresponding sub-score for each question, namely

a. **Unaligned.** Sub-score = 0.00/3.00.
b. **Some progress.** Sub-score = 1.00/3.00.
c. **Paris aligned.** Sub-score = 2.00/3.00.
d. **Transformational.** Sub-score = 3.00/3.00.

The sum of the weighted sub-scores provides the overall weighted assessment result. While each question can obtain one of the four scores, the overarching score may therefore be between each of these numbers, for example 1.2. The overall assessment outcome is determined depending on the corresponding score range, as illustrated in Table 5.1. below.

Table 5.1. Assessment outcomes and corresponding score ranges

Assessment outcomes	Corresponding score range
Unaligned	0.00 – 0.50
Some progress	0.51 – 1.50
Paris aligned	1.51 – 2.50
Transformational	2.51 – 3.00

Table 5.2. below provides an illustrative assessment example. All assessment questions and corresponding benchmarks are provided in the Annex to this report.

Table 5.2. Illustrative assessment of an ECA's Paris alignment

Dimensions	Weight	Description	Score (illustrative)
1. Transparency	0.2	Financial and non-financial disclosures.	1
2. Mitigation I	0.4	Ambition of fossil fuel exclusion or restriction policies.	1
3. Mitigation II	0.2	Climate impact of and emission reduction targets for all activities.	2
4. Climate finance	0.1	Positive contribution to the global climate transition.	1
5. Engagement	0.1	Outreach and "pro-activeness" of the ECA and its governments.	1
Assessment outcome:		**Some progress**	**1.2 (weighted)**

This assessment methodology is thus a practical and objective tool to identify both gaps and best practices of Paris alignment and can be used to inform ongoing reform within different ECAs.

This report applies this assessment methodology to the case of UKEF. Next to the underlying methodological approach summarised above, Table 5.3 below illustrates the core features of a Paris aligned ECA across five assessment dimensions and provides best practice examples from different ECAs. All other benchmarks – the poorer 'Unaligned' and 'Some progress' benchmarks, but also the 'Transformational' benchmark – are presented in the Annex.

Table 5.3. Core features of a Paris-aligned ECA and best practice examples

Assessment question	Paris aligned benchmark	Best practice ECA example
Dimension 1: Transparency		
Q1.1: To what extent can the GHG intensity of all activities supported by the ECA be assessed based on publicly available data? (Non-financial disclosure)	• GHG emissions (scope 1 and 2, and 3 where appropriate) are reported according to international standards of financed or insured emissions and their attribution, for example, the GHG Protocol.	**Bpifrance Assurance Export (France)** was the first ECA to conduct an assessment of its Scope 1-3 emissions as well as intensity in tCO_2/M€ in 2020.[78] The climate impact of activities guaranteed and supported by Bpifrance Assurance Export was thus analysed both in absolute terms and with intensity metrics. Emissions were attributed depending on the share of the total equity and debt raised that is guaranteed by Bpifrance Assurance Export.

78. Natixis, "France's strategy on export financing: a stick and carrot approach with fossil fuels funding phasing out and a supporting factor for EU Taxonomy compliant activities", https://gsh.cib.natixis.com/our-center-of-expertise/articles/france-s-strategy-on-export-financing-a-stick-and-carrot-approach-with-fossil-fuels-funding-phasing-out-and-a-supporting-factor-for-eu-taxonomy-compliant-activities (2020).

Assessment question	Paris aligned benchmark	Best practice ECA example
Q1.2: In how far can the share of fossil fuel finance over total portfolio be assessed? (Financial disclosure)	• Comprehensive possibility to assess fossil fuel finance; project level information and necessary definitions available. AND • Clear in-house definition of fossil fuel finance or adhering to international standard or best practice.	**Atradius DSB (Netherlands)** developed a dedicated in-house methodology to measure the share of fossil fuel-related activities (including their value chains) over the total portfolio. The results as well as the underlying methodology were disclosed in Atradius DSB 2020 Annual Report.[79] **SEK (Sweden)** discloses the share of assets exposed to carbon risks, although the disclosure is not as detailed as in the case of the Netherlands.[80]

79. Philipp Censkowsky, Igor Shishlov and Laila Darouich, "Paris Alignment of Export Credit Agencies: the case of the Netherlands (Atradius Dutch State Business). Perspectives Climate Research, https://bit.ly/3wvLLb9 (2021).
80. Ibid.

Assessment question	Paris aligned benchmark	Best practice ECA example
Q1.3: In how far can the share of climate finance over total portfolio be assessed? (Financial disclosure)	• Possibility of comprehensive assessment, for example climate-related and non-climate-related financial disclosure exists for total portfolio. AND • Clear in-house definition of climate finance or adherence to international standard.	**Atradius DSB (Netherlands)** developed a dedicated in-house 'Green Label' methodology based on a list of 'light green', 'medium green' or 'dark green' activities depending on their climate contribution, which was introduced into the reporting in 2019. While there are several important caveats with the methodology, it is currently the furthermost an ECA has gone to disclose the share of climate finance.[81]
Q1.4: To what extent does the institution adhere to the Recommendations and Supporting Recommended Disclosures of the Task Force on Climate-related Disclosure (TCFD)?	• Regular disclosure fully in line with the TCFD for at least one financial year.	**UKEF** was the first ECA to report according to the TCFD in 2021. **SEK and EKN (Sweden)** committed to the TCFD reporting from 2022 onwards.

81. Ibid.

Assessment question	Paris aligned benchmark	Best practice ECA example
Dimension 2: Mitigation I		
Q2.1: How ambitious is the ECA regarding exclusions or restrictions for support of coal and related value chain?	• Policies in place excluding coal and related value chains with immediate effect and no deviation. OR • Demonstration of nonengagement in entire coal value chain.	**UKEF** committed in 2021 to phase out all fossil fuel support (with limited exceptions). ECAs of many other (mainly European) countries joined this commitment at COP26.
Q2.2: How ambitious is the ECA regarding exclusions or restrictions for support of oil and related value chain?	Same benchmark as for coal (Q2.1).	**UKEF** committed in 2021 to phase out all fossil fuel support (with limited exceptions). ECAs of many other (mainly European) countries joined this commitment at COP26.
Q2.3: How ambitious is the ECA regarding exclusions or restrictions for support of gas and related value chain?	Same benchmark as for coal and oil (Q2.1).	**UKEF** committed in 2021 to phase out all fossil fuel support (with limited exceptions). ECAs of many other (mainly European) countries joined this commitment at COP26.
Dimension 3: Mitigation II		
Q3.1: Can a declining trend in GHG intensity of the total portfolio be observed? (Scope 1-3 emissions)	• GHG intensity of total portfolio available. AND • Significantly decreasing trend over the past three years (>3% per annum. compared to first year of comprehensive GHG accounting).	**None**. At the time of writing no GHG reporting was publicly available by any ECA. GHG emissions trends therefore could not be determined.

Assessment question	Paris aligned benchmark	Best practice ECA example
Q3.2: How significant is the fossil fuel financing relative to total energy-related portfolio? (average of the last three years of available data, where available)	• Value zero. OR • Targeted policies in place to reach zero over the short term (coal, oil and gas).	**EKF (Denmark)** added no new fossil fuel projects to the portfolio in the past three years (2019-2021).[82]
Q3.3: To what extent do all emission-relevant sectors have targeted GHG reduction targets and in how far are GHG reduction targets in line with benchmarks of acceptable 1.5°C pathways?	• Existence of targets in all emission-relevant sectors. AND • Submitted science-based targets (SBTi) (or announcement to submit over the short term) to reduce portfolio emissions covering Scopes 1, 2 and 3.	**EDC (Canada)** committed to implement Science Based Targets for the whole portfolio.[83]
Dimension 4: Climate Finance		
Q4.1: What is the reported share of climate finance over total portfolio?	• Share between 20% and 50%. AND • Continuous upward trend of share over the past three financial years for which data is available.	**Atradius DSB (Netherlands)** reported an increase in the share of green finance from 19.7% in 2019 to 49% in 2020.[84]

82. Just Finance, "Denmark plans to phase-out fossil fuel support for export credits – whilst carbon intensive projects continue", https://justfinanceinternational.org/2021/09/23/denmark-plans-to-phase-out-fossil-fuel-support-for-export-credits-whilst-carbon-intensive-projects-continue/ (2021).
83. Philipp Censkowsky, Igor Shishlov and Laila Darouich, "Paris Alignment of Export Credit Agencies: the case of Canada (Export Development Canada). Perspectives Climate Research, https://bit.ly/3uXqjwQ (2022).
84. Philipp Censkowsky, Igor Shishlov and Laila Darouich, "Paris Alignment of Export Credit Agencies: the case of the Netherlands (Atradius Dutch State Business). Perspectives Climate Research, https://bit.ly/3wvLLb9 (2021).

Assessment question	Paris aligned benchmark	Best practice ECA example
Q4.2: How can the quality/ appropriateness of climate finance earmarks be assessed?	• Adoption of common climate finance earmarks. AND • Exclusion of retrofits of existing fossil fuel power plants due to risk of carbon lock-in from climate finance accounting.	**None.** At the time of writing no ECA adopted common climate finance earmarks.
Q4.3: What is the share of clean energy financing over total energy-related financing?	• 100%, as of the last FY for which data is available.	**EKF (Denmark)** reports that 70% of its whole portfolio is related to renewable energy, while the share of renewable energy in the energy portfolio is close to 100%.[85]
Q4.4: To what extent does the pricing structure take into account climate impacts of activities?	• Implementation of an effective climate reward based on the climate impact of activities (for example, smaller premiums or interest paid for activities on a 'climate', 'green' or 'sustainable' list).	**Atradius DSB (Netherlands)** introduced several special instruments to make green exports more attractive. These instruments are designed for exports which can be classified as 'green' according to Atradius DSB's in-house 'Green Label'.[86]

85. EKF, "Annual Report 2020", https://www.ekf.dk/media/auejfd1u/annual-report-2020.pdf?v=637751829507279336 (2021).
86. Philipp Censkowsky, Igor Shishlov and Laila Darouich, "Paris Alignment of Export Credit Agencies: the case of the Netherlands (Atradius Dutch State Business). Perspectives Climate Research, https://bit.ly/3wvLLb9 (2021).

Assessment question	Paris aligned benchmark	Best practice ECA example
Q4.5: In how far does the institution ensure positive sustainable development contributions of its activities?	• Evidence for strong synergies with national development agencies. OR • Mandate that includes contributions to sustainable development goals and safeguards against negative impacts.	**None.** At the time of writing no ECA adopted reporting according to Sustainable Development Goal (SDG) indicators.
Dimension 5: Engagement		
Q5.1: To what extent does the institution itself or its government actively engage in relevant international fora (E3F, OECD, the Berne Union, WTO, or the World Economic Forum) to liaise with like-minded for ambitious climate policies in the export finance system?	• Assuming institutional leadership and responsibility for revisions and additions to the OECD Arrangement. OR • Demonstration of a 'policy push' outside the OECD Arrangement.	**UKEF and the UK Government** demonstrated leadership at COP26 by launching a Statement on International Public Support for the Clean Energy Transition, which commits signatories to end new direct public support for the international 'unabated' fossil fuels, except in limited and clearly defined circumstances, by the end of 2022.

Assessment question	Paris aligned benchmark	Best practice ECA example
Q5.2: To what extent does the institution itself or its government actively engage in relevant national fora with a view to implementing ambitious climate policies in the (national) export finance system?	• Assuming institutional leadership to design policies for structural change of domestic export sectors (for example through active re-training programmes, or subsidies for new and innovative business development in non-fossil value chains).	**The UK Government** takes a pro-active approach to implementing ambitious climate policies at national level, for instance, through the UK's ambitious *Net Zero Strategy*, sets out how the UK will deliver on its commitment to reach net zero emissions by 2050.[87]
Q5.3: To what extent does the institution or its government actively engage with national companies to transform fossil fuel-related value chains and incentivise low GHG exports?	• Clear proactive role of ECA and its government in enabling innovation and marketisation of goods and services in low GHG sectors in exports markets. OR • Dedicated incentive schemes.	**UKEF** launched dedicated products including the Clean Growth Direct Lending Facility and the Transition Export Development Guarantee. Within its new Climate Change Strategy, UKEF also committed to deploy a marketing campaign targeted at clean growth exporters in the UK and buyers overseas.[88]

This chapter provided an overview of the core features of a Paris-aligned ECA, including best practice examples from ECAs around the world. The core features were structured along five key assessment dimensions and are briefly summarised in Table 5.4 below.

87. UK Government, "UK's path to net zero set out in landmark strategy", https://www.gov.uk/government/news/uks-path-to-net-zero-set-out-in-landmark-strategy (2021).
88. UK Export Finance, "Climate Change Strategy", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1019141/UKEF_Climate_Change_Strategy_2021.pdf (2021).

Table 5.4. Overview of the core features of a Paris-aligned ECA

Dimensions	Core features
Dimension 1: Transparency	• ECA reports its Scope 1-3 GHG emissions. • ECA reports the share of fossil fuel support (including upstream and downstream value chains) in its portfolio. • ECA reports the share of climate/sustainable finance in its portfolio. • ECA provides regular disclosure fully in line with the TCFD.
Dimension 2: Mitigation I	• ECA phased out support to coal and related value chains. • ECA phased out support to oil and related value chains. • ECA phased out support to gas and related value chains.
Dimension 2: Mitigation II	• ECA demonstrates a declining trend in its GHG emissions. • ECA demonstrates a zero share of fossil fuels in its energy portfolio. • ECA set GHG emissions reduction targets in all emission-relevant sectors in line with the latest climate science.
Dimension 4: Climate Finance	• ECA credibly demonstrates a share of climate finance in its portfolio between 20% and 50% and an upward trend. • ECA adopted common climate finance earmarks. • ECA demonstrates 100% clean energy in its energy portfolio. • ECA implements effective climate rewards based on the climate impact of activities. • ECA demonstrates strong synergies with national development agencies or has a mandate that includes contributions to sustainable development goals and safeguards against negative impacts.

Dimensions	Core features
Dimension 5: Engagement	• ECA assumes leadership in international fora with regards to advancing the climate agenda. • ECA assumes leadership for national fora with regards to advancing the climate agenda. • ECA engages with exporters with regards to advancing the climate agenda.

In the next chapter we will assess UKEF along these core features in greater detail.

Chapter 6:
Assessment of UKEF alignment with the Paris Agreement

Having outlined the core features of a Paris Aligned ECA across five dimensions in the last chapter, this chapter uses the assessment methodology developed by Perspectives Climate Research[89] to rate UKEF, outlining where it is making good progress and where it requires further reforms.

Table 5.2 in the last chapter revealed where UKEF is exemplary on some core features of the assessment methodology we have employed for this report. This chapter provides the overall scoring as well as a justification of the assessment of UKEF, against each benchmark on each of the five dimensions. This allows for the identification of key measures that need to be taken for UKEF to achieve full Paris Alignment.

As will be seen, all in all, UKEF has made significant progress with regards to aligning its operations with the Paris Agreement and is not far from being 'Paris aligned' according to the benchmarks set forth in this original assessment methodology. This is most notably due to stopping official export finance support for fossil fuels (coal, oil and gas, with limited exceptions) in overseas businesses in 2021, other commitments made under UKEF's Climate Change Strategy, as well as the UK's recent engagement at COP26.

Despite this, UKEF is not yet fully in line with the Paris Agreement.

89. Igor Shishlov, Philipp Censkowsky and Laila Darouich, "Aligning Export Credit Agencies with the Paris Agreement", Perspectives Climate Research, https://bit.ly/38nhMqz (2021).

Important caveats include the exceptions in fossil fuel exclusion policies, lack of clear definitions of fossil fuel and clean energy categories, and lack of transparency in the reporting on support in different sectors as well as GHG accounting.

Table 6.1 below provides a detailed assessment of UKEF against each benchmark across the five dimensions of this unique methodology.

Table 6.1. Assessment of UKEF alignment with the Paris Agreement

Assessment question	Practices at UKEF and justification of the assessment	Assessment outcome
Dimension 1: Transparency (Financial and non-financial disclosures)		
Q1.1: To what extent can the GHG intensity of all activities supported by the ECA be assessed based on publicly available data?	Within its new Climate Change Strategy, as introduced in Chapter Four, UKEF committed to develop scope 1, 2 and 3 GHG emission accounting in 2021-2022 and disclose such emissions in a detailed manner by 2024.[90] A better rating can only be given once robust GHG emission accounting for all activities is in place and transparently disclosed.	Some progress
Q1.2: In how far can the share of climate finance over total portfolio be assessed?	Currently, UKEF does not specifically report climate- and/or sustainability-related commitments – neither for the total cumulative commitments (stock reporting), nor new commitments provided in the current reporting period (flow reporting). At the same time, UKEF does not adhere to best standards with sectoral thresholds, such as provided by the EU Taxonomy for Sustainable Activities, explained earlier in Box 4.1. Moreover, there is no dedicated reporting on 'clean growth' projects as part of new commitments nor as part of outstanding total commitments.	Some progress

90. UK Export Finance, "Climate Change Strategy", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1019141/UKEF_Climate_Change_Strategy_2021.pdf (2021).

Assessment question	Practices at UKEF and justification of the assessment	Assessment outcome
	UKEF does refer to the concept of 'clean growth', following the launch of the UK Government's Clean Growth Strategy.[91] UKEF estimates that 50% of the new support provided goes to 'clean growth' sectors, but no further details are provided.[92] This is UKEF only scores 'Some progress' here. UKEF also points to the market intelligence provider Trade and Export Finance (TXF) Intelligence which finds that £2.4 billion of new UKEF commitments in 2020 were sustainability-related. According to TXF, UKEF ranks second in an international comparison among official ECAs, just after the Export-Import bank of China (EXIM China) which has supposedly provided about £2.6 billion in the same year for large-scale renewable energy projects, and therefore scores first.[93] However, EXIM China has provided about £ 40 billion of financial support to fossil fuel-related projects in energy finance over the past ten years, about half of which was provided since the signature of the Paris Agreement.[94] This flipside of EXIM China´s contribution to sustainable finance is not considered in the TXF sustainability ranking and therefore seriously casts doubt on its credibility.	

91. UK Government, "Clean Growth Strategy", https://www.gov.uk/government/publications/clean-growth-strategy (2018).
92. UK Export Finance, "Climate Change Strategy", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1019141/UKEF_Climate_Change_Strategy_2021.pdf (2021).
93. TXF Intelligence, "Sustainability in export finance – 2020 edition" (2021).
94. Oil Change International, 'Shift the Subsidies: Financing Dirty Energy', http://priceofoil.org/shift-the-subsidies/ (2021).

Assessment question	Practices at UKEF and justification of the assessment	Assessment outcome
	In light of all this, it is imperative for UKEF to determine and disclose both climate-positive and climate-adverse finance (or more broadly, sustainable and unsustainable finance) in-house and according to a comprehensive and consistent manner – for example, in accordance the EU Taxonomy for Sustainable Activities and taking into account the latest scientific advances.	
Q1.3: To what extent can the share of fossil fuel finance over total portfolio be assessed?	The UK Government committed to no longer support fossil fuel energy sector projects, except in exceptional circumstances, in overseas businesses from April 2021. This commitment is a necessary and laudable step towards alignment with the Paris Agreement. Yet the share of commitments outstanding which are attributable to fossil fuel value chains has never been disclosed in annual reports. The first substantial insight into the share of fossil fuels over the total portfolio of UKEF are provided as part of an recent inquiry by the House of Commons Environmental Audit Committee. The inquiry found UKEF support for fossil fuel energy projects "unacceptably high, particularly in low- and middle-income countries", finding more than 90% of support granted between 2013 and 2018 to be relatable to fossil fuel value chains.[95] This inquiry was launched as the result of years of climate advocacy and can be seen as an important stepping stone to UK leadership on fossil fuel phase out policies in officially supported export finance.	Some progress

95. House of Commons Environmental Audit Committee, "Written evidence submitted by NS Ghaleigh, Senior Lecturer in Climate Law, School of Law, University of Edinburgh", http://data.parliament.uk/WrittenEvidence/CommitteeEvidence.svc/EvidenceDocument/Environmental%20Audit/UK%20export%20finance/Written/94918.html (2019).

Assessment question	Practices at UKEF and justification of the assessment	Assessment outcome
Q1.4: To what extent does the institution adhere to the Recommendations and Supporting Recommended Disclosures of the Task Force on Climate-related Disclosure (TCFD)?	In July 2019, UKEF committed to making financial disclosures in line with the recommendations by the TCFD, first explained in Box 4.5 earlier. This commitment has been fulfilled. The latest annual report from UKEF dedicated six pages to UKEF´s account of and progress made across the four core elements underpinning climate-related disclosures as proposed by the TCFD, namely governance, strategy, risk management as well as metrics and targets. It should be noted that in the evolving discussion regarding climate-related risk, the focus on climate risk management in financial decision making as suggested by the TCFD has been criticised since it omits the aggravation of climate-related risks through emissions-intensive financial activity itself.[96] Moreover, in 2021, the Taskforce on Nature-related Disclosures (TNFD)[97] consisting of 34 senior executives from financial institutions, corporates and market service providers was launched. It aims to provide recommendations for financial institutions to report and act on nature-related risks and opportunities. We recommend that UKEF evaluates the possibility of further extending disclosures to incorporate TNFD recommendations once they become available.	Paris aligned

96. Beatrice Crona, Carl Folke, and Victor Galaz, "The Anthropocene Reality of Financial Risk", One Earth 4 (5): 618–28, https://doi.org/10.1016/j.oneear.2021.04.016 (2021).
97. Taskforce on Nature-related Disclosures, https://tnfd.global/ (2021).

Assessment question	Practices at UKEF and justification of the assessment	Assessment outcome
Dimension 2: Mitigation I		
Q2.1: How ambitious is the ECA regarding exclusions or restrictions for support of coal and related value chain?	UKEF committed to phase out support to coal under the Powering Past Coal Alliance (PPCA), which the UK founded jointly with the Government of Canada in 2017. Some observers confirmed that UKEF's support to fossil fuels in the past several years went to the oil and gas sectors and not coal.[98] Moreover, the OECD Arrangement has recently been reformed to exclude export finance support to coal-fired power plants without CCS, as discussed earlier in Chapter Two. Finally, announced in December 2020 and enacted from April 2021, the UK Government has phased out support for all types of fossil fuels – including coal – in overseas businesses. This includes all support for fossil fuels in the "extraction, production, transportation, refining and marketing of crude oil, natural gas or thermal coal, as well as any fossil-fuel fired power plants […]".[99] Unlike oil and gas, assessed below, the phase out of coal support appears to be comprehensive.	Paris aligned

98. BBC, "Carbon emissions: Scale of UK fossil fuel support 'staggering'", https://www.bbc.com/news/science-environment-51216084 (2020).
99. UK Government, "Aligning UK international support for the clean energy transition," https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/972811/uk-support-clean-energy-transition-consultation-response.pdf (2021).

Assessment question	Practices at UKEF and justification of the assessment	Assessment outcome
Q2.2: How ambitious is the ECA regarding exclusions or restrictions for support of oil and related value chain?	The fossil fuel exclusion policy enacted from April 2021 phased out support for all types of fossil fuels – including oil and gas – in overseas businesses. The policy, however, distinguishes between exceptions (mainly for oil and gas) through which support can continue 'within the scope' of the policy – for example, on the decommissioning of existing fossil fuel assets or gas-fired power generation and directly related infrastructure in limited circumstances – and areas relatable to fossil fuel value chains, which are 'out of scope' of the policy. The main caveats of the phase out policy are: (i) Numerous exceptions through which support can still be granted in areas 'within scope' (for example, capital support which improves energy or emissions efficiency of existing oil-related assets). (ii) Numerous areas 'outside of scope' of the policy which are attributable to oil-related value chains and indeed contribute to global carbon lock-in effects and continued demand for fossil fuel supplies (such as industrial applications of petroleum, petrochemical industry). (iii) The absence of a maximum cap for the continuation of the provision of support to fossil fuel-related value chains within or outside the scope of the policy. (iv) The absence of a robust and transparent measurement methodology and definitorial approach to 'fossil fuel value chains'.	Some progress

Assessment question	Practices at UKEF and justification of the assessment	Assessment outcome
	Despite this, the UK policy is comparably the most far-reaching fossil fuel phase out policy for a major and export-oriented G20 economy, especially given the relatively large oil and gas sector in the country which currently directly and indirectly employs about 150,000 people.[100] Nevertheless, no better scoring can be provided at this point since the fossil fuel phase out policy comes with several caveats that require attention. Moreover, before comprehensive reporting on implementation on the policy released in 2022, a conclusive assessment is nearly impossible. With regards to aligning fully with the Paris Agreement, a full phase out of support for fossil fuel value chains is required.	
Q2.3: How ambitious is the ECA regarding exclusions or restrictions for support of gas and related value chain?	Same as above. Moreover, many exceptions or areas out of scope convey the impression of natural gas as a 'transition fuel'. This is, however, not in line with the 'Net Zero Pathway' by the International Energy Agency[101] nor compatible with the special responsibilities early industrial countries need to do justice to. Moreover, it seems paradoxical that the much laudated fossil fuel phase out policy was released in the same year in which UKEF provided more than £1 billion support for a controversial natural gas project in Mozambique.[102] Liquified petroleum gas (LPG) also falls outside the scope of the exclusion policy.	Some progress

100. Vivid Economics, "UK Export Finance and Domestic Jobs", https://www.vivideconomics.com/casestudy/uk-export-finance-and-domestic-jobs/ (2020).
101. IEA, "Net Zero by 2050 – A Roadmap for the Global Energy Sector", International Energy Agency, https://www.iea.org/reports/net-zero-by-2050 (2021).
102. Emma Gatten and Gordon Rayner, "UK agrees $1bn backing to Mozambique gas pipeline despite environmental concerns", The Telegraph, 26 June, 2020.

Assessment question	Practices at UKEF and justification of the assessment	Assessment outcome
Dimension 3: Mitigation II		
Q3.1: Can a declining trend in GHG intensity of the total portfolio be observed? (Scope 1-3 emissions)	No GHG emission accounting is in place at this point in time. However, UKEF committed to implementing accounting scope 1-3 GHG emissions and setting targets to decrease overall GHG emissions. This is, however, insufficient. Declining trends in GHG intensity of the total portfolio will have to be assessed once GHG emission accounting is in place and first data available.	Unaligned
Q3.2: How significant is the fossil fuel financing relative to total energy-related portfolio? (average of the last three years of available data, where available)	As already highlighted in Table 4.1, according to the House of Commons Environmental Audit Committee, between 2013 and 2018 UKEF provided £2.6 billion to the energy sector, of which 96% was targeted to support fossil fuel projects, the majority of which was implemented in low- and middle-income countries.[103] 'Fossil fuel projects' in this audit is based on written evidence provided by UKEF and vaguely defined as "fossil fuel related exports [which] include refinery projects where the output includes fuels, but does not include refinery projects where the output is purely petrochemical (for example, chemicals, plastics, fertilisers) [and] [fossil fuel related exports also include power plants, as well as upstream and extraction projects" Comparable data for 2019 and 2020 is not publicly available. Due to the vague definition of fossil fuel-related exports, it is unclear to what extent the entire fossil fuel value chain is covered. However, the UK has effectively put in place policies to reach zero financing of fossil fuels (coal, oil and natural gas).	Some progress

103. Environmental Audit Committee, "Report on UK Export Finance: Summary", https://publications.parliament.uk/pa/cm201719/cmselect/cmenvaud/1804/180402.htm (2019).

Assessment question	Practices at UKEF and justification of the assessment	Assessment outcome
Q3.3: To what extent do all emission-relevant sectors have targeted GHG reduction targets and in how far are GHG reduction targets in line with benchmarks of acceptable 1.5°C pathways?	UKEF has made a commitment to achieve net zero GHG emissions by 2050 and set interim GHG emissions reduction targets in all emission-relevant sectors for Scopes 1-3 GHG emissions. However, UKEF does not mention setting science-based targets (SBT) for its portfolio through which it could underpin the credibility of targets and their alignments with the most recent climate science. By getting targets approved by the science-based targets initiative (SBTi), discussed earlier in Box 4.4, UKEF could lead the way and build on the SBTi´s efforts to design and approve targets for financial institutions. Moreover, offering financial incentives for British exporters who submit their own SBTs could be an additional concrete way to decrease scope 3 emissions in the ECA´s portfolio.	Some progress
Dimension 4: Climate Finance		
Q4.1: What is the reported share of climate finance over total portfolio?	UKEF operates no dedicated climate-related financial reporting and it is therefore not possible to determine climate finance as share of new commitments, let alone climate finance as a share of total outstanding commitments.	Some progress

Assessment question	Practices at UKEF and justification of the assessment	Assessment outcome
	However, UKEF follows the UK Government's *Clean Growth Strategy*.[104] Consequently, under UKEF´s Direct Lending Facility, it now provides up to £2 billion specifically for projects defined as 'clean growth'. This compares to the estimate by TXF which found that UKEF supported £2.4 billion of 'sustainable projects'. Both estimates are broadly based on the definitions of the 'Green Bond Principles', a market-led initiative providing guidance and recommendations on the issuance of green bonds in global debt capital markets. The initiative sets forth a non-exhaustive list of and fairly broad categories of eligible activities, such as renewable energy projects, clean transportation and green buildings.[105] At the same time, UKEF states that 50% of new commitments corresponds to 'clean growth'-related transactions.[106] There is currently no assessment based on robust and time-consistent reporting. To improve its score, UKEF should implement a robust and transparent system to track and report climate finance – for example, using the EU Taxonomy for Sustainable Activities – and demonstrate an increase in its share over time.	

104. UK Government, "Clean Growth Strategy", https://www.gov.uk/government/publications/clean-growth-strategy (2018).
105. International Capital Markets Association, "Green Bond Principles", https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf (2021).
106. UK Export Finance, "Climate Change Strategy", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1019141/UKEF_Climate_Change_Strategy_2021.pdf (2021).

Assessment question	Practices at UKEF and justification of the assessment	Assessment outcome
Q4.2: How can the quality / appropriateness of climate finance earmarks be assessed?	UKEF defines 'clean growth' in alignment with the Green Bond Principles, described directly above, and UKEF's approach is consistent with the general *Clean Growth Strategy* of the UK Government. Reaching higher scoring would require UKEF to align its list of eligible activities under its 'clean growth' scheme to be based on sector-specific thresholds of the specific economic end activity (for example, on GHG emission intensity) such as proposed by the EU Taxonomy for Sustainable Activities and be in line with the latest climate science.	Some progress
Q4.3: What is the share of clean energy financing over total energy-related financing? *(average of new commitments from the last three years where data is available)*	There is a lack of comprehensive reporting of energy financing by UKEF. The latest available evidence from the House of Commons Environmental Audit Committee, as aforementioned, indicates that between 2013 and 2018 UKEF provided £2.6 billion to the energy sector of which only 4% were attributable to broadly defined 'renewable energy' projects.[107] However, it should be noted that this assessment may change as UKEF phased out support for significant parts of fossil fuel value chains earlier in 2021. We therefore recommend to specifically report transactions in the energy sector for both new and outstanding commitments, both for clean (or more narrowly, renewable) and exceptional fossil-fuel related energy sources.	Unaligned

107. Environmental Audit Committee, "Report on UK Export Finance: Summary", https://publications.parliament.uk/pa/cm201719/cmselect/cmenvaud/1804/180402.htm (2019).

Assessment question	Practices at UKEF and justification of the assessment	Assessment outcome
Q4.4: To what extent does the pricing structure take into account climate impacts of activities?	UKEF, contrary to other ECAs, like the Dutch and German ECAs, is not a 'pure-cover' ECA. This means that its mandate permits direct loans which are typically issued for foreign buyers of British exports. In this context, UKEF established the Clean Growth Direct Lending Facility (CLGF) in 2020 which serves with up to £2 billion as an important instrument to improve financing conditions for 'clean growth' projects abroad. Improving its scoring would require the implementation of effective climate-reward systems across the entire portfolio, for example enabling smaller premium or interest payments for activities that are comprised by UKEF´s 'clean growth' or other robust climate- or sustainability-related list of activities. In the absence of operative scope 1-3 GHG emissions accounting we would recommend providing such additional incentives based on the list of 'clean growth' activities, which would be supported by UK exporters, as Charts 4.1 and 4.2 earlier demonstrated.	Some progress
Q4.5: In how far does the institution ensure positive sustainable development contributions of its activities?	As a UK government department, UKEF supports the UN´s Sustainable Development Goals (SDGs), applies environmental and social safeguards such as the IFC Environmental and Social Performance Standards discussed earlier in Chapter 2, and examines environmental, social and human rights (ESHR) risks and potential impacts of projects.	Some progress

Assessment question	Practices at UKEF and justification of the assessment	Assessment outcome
	UKEF proposes to "pursue a 'Focused Alignment' strategy with the SDGs".[108] This strategy promises to take a proactive approach to identifying projects and supply chains with SDG-related impacts with regards to creating more propitious conditions to contribute to SDGs. The 'Focused Alignment' strategy will be developed between 2021 and 2024 and no further details are therefore available at the time of writing. No better rating can be provided since continued bad press related to past and ongoing projects supported by UKEF including the £1 billion support for the liquified natural gas plant in Mozambique, £734 million support for the Duqm oil refinery project in Oman, £248 million for oil exploration in Brazil, £171 million for an oil refinery in Kuwait, to name only a few.[109]	

108. UK Export Finance, "Climate Change Strategy", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1019141/UKEF_Climate_Change_Strategy_2021.pdf (2021).
109. The Guardian, "Global Witness accuses UK of 'rank hypocrisy' on fossil fuel projects", https://www.theguardian.com/business/2020/mar/17/global-witness-accuses-uk-of-rank-hypocrisy-on-fossil-fuel-projects (2020).

Assessment question	Practices at UKEF and justification of the assessment	Assessment outcome
	Dimension 5: Engagement	
Q5.1: To what extent does the institution itself or its government actively engage in relevant international fora (E3F, OECD, the Berne Union, WTO, or the World Economic Forum) to liaise with like-minded for ambitious climate policies in the export finance system?	The UK Government is an internationally leading player in advancing agendas related to ambitious climate policies in the export finance system. Next to being a member of the Export Finance for Future (E3F) initiative,[110] at COP26 the UK launched a Statement on International Public Support for the Clean Energy Transition,[111] which commits signatories to end new direct public support for the international 'unabated' fossil fuels, except in limited and clearly defined circumstances, by the end of 2022. As of December 2021, the statement has been signed by 39 countries and financial institutions. The UK is also an active promoter of the OECD Arrangement reforms, which recently moved to phase out coal support, as explained in detail in Chapter Two. We stress the unique position of the UK Government to continue its efforts and, together with like-minded countries such as Sweden and the Netherlands, work towards a 'policy-push' in officially-supported export finance and integrate its national-level fossil fuel policy at the OECD level, for example into the OECD Arrangement on officially supported export credits. Now the UK should use its convening and negotiation power and engage as a frontrunner in international climate diplomacy regarding officially supported export finance.	Transformational

110. https://www.tresor.economie.gouv.fr/Articles/2021/04/14/seven-countries-launch-international-coalition-export-finance-for-future-e3f-to-align-export-finance-with-climate-objectives
111. COP26, "Statement on International Public Support for the Clean Energy Transition" https://ukcop26.org/statement-on-international-public-support-for-the-clean-energy-transition (2021).

Assessment question	Practices at UKEF and justification of the assessment	Assessment outcome
Q5.2: To what extent does the institution itself or its government actively engage in relevant national fora with view to implementing ambitious climate policies in the (national) export finance system?	The UK Government takes a pro-active approach to implementing ambitious climate policies at national level, for instance, through the ambitious UK's Net Zero Strategy, sets out how the UK will deliver on its commitment to reach net zero emissions by 2050.[112] With regards to better scoring, it remains to be seen to what extent and to which effect the national export market transforms over the upcoming years.	Paris Aligned
Q5.3: To what extent does the institution or its government actively engage with national companies to transform fossil fuel-related value chains and incentivise low GHG exports?	Here the UK Government also takes a pro-active approach towards transforming national companies applying for UKEF support. This can be seen, for instance, through the provision of guidelines for companies transitioning out of fossil fuel exports and specific conditions under the so-called Transition Export Development Guarantee, which was introduced in Chapter Four. Moreover, the UK Government commits to provide tailored export finance advice to UK small and medium-sized enterprises in the clean growth sector, with dedicated Export Finance Managers across the UK. With regards to better scoring, it remains to be seen to what extent and to which effect the national export market transforms over the upcoming years.	Paris Aligned

112. UK Government, "UK's path to net zero set out in landmark strategy", https://www.gov.uk/government/news/uks-path-to-net-zero-set-out-in-landmark-strategy (2021).

We can now simplify this extensive assessment of UKEF into an overall score. Table 6.2 provides the overall rating and assessment score. The UKEF's overall score is therefore 'Some progress' towards Paris alignment with a clear potential of becoming Paris-aligned.

Table 6.2. UKEF overall Paris Alignment rating and assessment score by dimension.

Assessment dimension	Weight	Description	Score
1. Transparency	0.2	Financial and non-financial disclosures	**1.25/3.00**
2. Mitigation I	0.4	Ambition of fossil fuel exclusion or restriction policies	**1.33/3.00**
3. Mitigation II	0.2	Climate impact of and emission reduction targets for all activities	**0.67/3.00**
4. Climate finance	0.1	Positive contribution to the global climate transition	**0.80/3.00**
5. Engagement	0.1	Outreach and 'pro-activeness' of the ECA and its government	**2.33/3.00**
Assessment outcome:		**Some progress**	**1.23/3.00**

Compared to other countries, for which an assessment score has been generated by Perspectives Climate Research, the UK performs relatively well. Indeed, the four other countries – Canada, Germany, Japan and the Netherlands – assessed by Perspectives Climate Research were all rated 'Unaligned' with the Paris Agreement. Table 6.3 below provides a comparison of Paris alignment scores for these countries and the UK across five assessment dimensions. Among the five countries the UK scored highest on all assessment dimensions.

Table 6.3. Comparison of Paris alignment scores of four countries

Dimension	Canada[113]	Germany[114]	Japan[115]	Netherlands[116]	UK
1. Transparency	1.00/3.00	0.25/3.00	0.00/3.00	1.00/3.00	1.25/3.00
2. Mitigation I	0.33/3.00	0.33/3.00	0.00/3.00	0.33/3.00	1.33/3.00
3. Mitigation II	0.33/3.00	0.00/3.00	0.00/3.00	0.00/3.00	0.67/3.00
4. Climate finance	0.00/3.00	0.40/3.00	0.20/3.00	0.60/3.00	0.80/3.00
5. Engagement	0.67/3.00	1.00/3.00	0.00/3.00	1.00/3.00	2.33/3.00
TOTAL SCORE	**0.47/3.00**	**0.32/3.00**	**0.02/3.00**	**0.49/3.00**	**1.23/3.00**

This chapter provided the overall Paris alignment scoring as well as a justification of the assessment of UKEF, against each benchmark on each of the five dimensions. Overall, UKEF has made significant progress with regards to aligning its operations with the Paris Agreement and is not far from being 'Paris aligned' according to the benchmarks set forth in this original assessment methodology. Moreover, UKEF scored higher on each assessment dimension compared to three other countries that have been assessed forensically in the same way.

Despite this, UKEF is not yet fully in line with the Paris Agreement. Important caveats include the exceptions in fossil fuel exclusion policies, lack of clear definitions of fossil fuel and clean energy

113. Philipp Censkowsky, Igor Shishlov and Laila Darouich, "Paris Alignment of Export Credit Agencies: the case of Canada (Export Development Canada). Perspectives Climate Research, https://bit.ly/3uXqjwQ (2022).
114. Laila Darouich, Philipp Censkowsky and Igor Shishlov, "Paris Alignment of Export Credit Agencies: the case of Germany (Euler Hermes)", Perspectives Climate Research, https://bit.ly/3qpfjWO (2021).
115. Laila Darouich, Igor Shishlov and Philipp Censkowsky, "Paris Alignment of Export Credit Agencies: the case of Japan (NEXI and JBIC)." Perspectives Climate Research, https://bit.ly/3EVCTyz (2021).
116. Philipp Censkowsky, Igor Shishlov and Laila Darouich, "Paris Alignment of Export Credit Agencies: the case of the Netherlands (Atradius Dutch State Business). Perspectives Climate Research, https://bit.ly/3wvLLb9 (2021).

categories, and lack of transparency in the reporting on support in different sectors as well as GHG accounting. The assessment thus allowed for the identification of remaining gaps and key measures that need to be taken for UKEF to achieve full Paris Alignment, which are further detailed in Chapter Seven.

Chapter 7:
Policy recommendations

In the last chapter, we found – using a unique and bespoke assessment methodology – that overall, UKEF has made significant progress towards Paris alignment. Despite this, UKEF is not yet fully in line with the Paris Agreement and it still requires more ambitious and faster action to be a model ECA globally.

With the UK still holding the COP Presidency for a year after the 2021 Glasgow Climate Pact, now is a crucial time to show global leadership and implement and champion further ambitious and urgent action to decarbonise export finance.

This chapter therefore proposes and explains key policy recommendations for UKEF to adopt to improve its facilities and policies so that they are fully aligned with the Paris Agreement. By doing so, UKEF would become the leading model ECA internationally.

Our policy recommendations are across all the five dimensions in the assessment methodology employed for this report, namely:

- Transparency (Financial and non-financial disclosures)
- Mitigation I (Ambition of fossil fuel exclusion or restriction policies)
- Mitigation II (Climate impact of emission reduction targets for all activities)
- Climate finance (Positive contribution to the global climate transition)
- Engagement (Outreach and 'pro-activeness' of the ECA and its governments)

Transparency

Recommendation one: Adopt the best international GHG accounting system for all scope 1-3 emissions

At the moment, UKEF does not operate a greenhouse gas (GHG) accounting system. But in its Climate Strategy, as explained in Chapter Four, UKEF has already committed to implement a Scope 1-3 GHG accounting system. However, it is not yet clear what exact type of GHG accounting system will be used.

We would recommend that UKEF engages with pioneers such as the French ECA Bpifrance Assurance Export to ensure that the best international practices are adopted in its GHG accounting system. Using a reliable GHG accounting system is crucial to ensure progress towards GHG emissions reduction targets and improve transparency with regards to climate-related disclosures.

Recommendation two: Disclose climate-friendly and climate-adverse financing across all of UKEF's portfolio

Currently, UKEF operates no dedicated climate-related financial reporting and it is therefore not possible to determine climate-positive or climate-adverse finance as share of neither new nor outstanding commitments.

It is, nevertheless, possible for UKEF to clarify and disclose information related to both climate-positive finance (sustainable finance) and climate-adverse finance (unsustainable finance) across all of its portfolio.

Such climate-related disclosure would be most comprehensive if provided both for all outstanding commitments (stock reporting) as well as for all new commitments (flow reporting,).

For climate-positive finance reporting, UKEF can use and build on the EU Taxonomy for Sustainable Activities, explained earlier in Box 4.1, considering the latest scientific advances. This would require, for example, UKEF to clarify an exhaustive list of eligible activities under its 'clean growth' sectors, as introduced in Chapter Six, which should be based on sector-specific thresholds of the specific economic activity, such as proposed by the EU Taxonomy for Sustainable Activities.

Recommendation three: Further enhance TCFD reporting by providing quantitative indicators on GHG emissions

We recommend UKEF strengthens its exemplary engagement in climate-related financial disclosures according to the TCFD recommendations, as described in Box 4.5 earlier, which includes reporting on (i) climate governance, (ii) climate strategy, (iii) climate risk management, and (iv) climate metrics and targets.

Currently, UKEF only reports qualitative information without quantitative indicators on GHG emissions, GHG emissions intensity, emissions reduction targets, and exposure to fossil fuel assets. While within its Climate Change Strategy UKEF committed to provide the first quantitative disclosure in its second TCFD report for 2021-22, what exact quantitative information would be provided is unclear. We recommend that UKEF clarifies this and reports in its second TCFD report the following quantitative data, as a minimum:

- New and cumulative outstanding commitments related to fossil fuels
- New and cumulative outstanding commitments related to clean energy
- Scope 1, 2, 3 GHG emissions once they become available
- GHG emissions reduction targets by sector

Recommendation four: Incorporate Taskforce on Nature-related Disclosures (TNFD) for UKEF projects once they become available

We recommend that UKEF considers the developments under the Taskforce on Nature-related Disclosures (TNFD),[117] which aims to

117. The TNFD consists of various groups, which together make up the TNFD Alliance. At the centre sits the Taskforce, a group of up to 35 Taskforce Members who are executives of various FIs. The TNFD Secretariat is hosted by the Green Finance Institute (GFI) and supported by the United Nations Development Programme (UNDP) and the United Nations Environment Programme Finance Initiative (UNEP FI).

provide recommendations for financial institutions to report and act on nature-related risks and opportunities. We recommend that UKEF evaluates the possibility of further extending disclosures to incorporate TNFD recommendations once they become available.

Mitigation I

Recommendation five: Adopt a value-chain approach to stop UKEF supporting fossil fuel projects, directly or indirectly

The UK became a pioneer in excluding all fossil fuels from its export finance support in 2021. Nevertheless, loopholes that may allow some fossil fuel projects get export finance support still remain, as Chapter Six unveiled, including: exceptions through which support can still be granted in areas 'within scope' (for example, capital support which improves energy or emissions efficiency of existing oil-related assets); and, numerous areas 'outside of scope' of the policy which are attributable to oil-related value chains and indeed contribute to global carbon lock-in effects and continued demand for fossil fuel supplies (such as industrial applications of petroleum, petrochemical industry), and liquified petroleum gas (LPG).

Specifically on the energy projects UKEF supports, we recommend implementing a full phase out of support for fossil fuels including upstream – such as extraction – and downstream – such as conversion into petrochemical products.

This will allow to consider instances where fossil or renewable energy activities are also supported indirectly, for example for multiple-purpose exports or where the recipient is an intermediary.

Currently, UKEF does not operate a fossil fuel and/or clean energy reporting methodology. We therefore recommend learning from peer institutions – such as Atradius DSB of the Netherlands – that have already implemented fossil fuel and clean energy reporting methodologies in order to build on best practices and avoid replicating their limits.

Recommendation six: Exclude all natural gas projects from future UKEF support

With regards to natural gas, UKEF conveys the image of natural gas as a 'transition fuel'. Quite simply, it is not. The 'Net Zero Pathway' by the International Energy Agency[118] informs that the new investments into natural gas are not compatible with the special responsibilities of early industrialised countries.

We therefore recommend a careful revision of the existing loopholes on fossil fuel financing, with a view to fully phasing out export finance support to all fossil fuel value chains, including natural gas in particular.

Mitigation II

Recommendation seven: Adopt new SBTI-approved decarbonisation pathways and targets for all economic sectors which include projects supported by UKEF

We recommend UKEF to work closely with – and ultimately get approval from – the Science Based Target Initiative (SBTi), introduced in Box 4.4, to develop clear decarbonisation pathways and targets for all economic sectors which include projects supported by UKEF, ideally based on the regularly updated and declining annual carbon budgets set by the UK's Climate Change Committee (CCC).

These pathways and targets should apply to all projects supported by UKEF by each economic sector, but priority should first be given to the most carbon-intensive sectors, such as industry and transport.

By getting these pathways and targets approved by the SBTi, UKEF can lead the way for other ECAs and build on the SBTi´s efforts to design and approve targets for financial institutions.

In order to be able to track progress towards these targets, it is of

118. IEA, "Net Zero by 2050 – A Roadmap for the Global Energy Sector", International Energy Agency, https://www.iea.org/reports/net-zero-by-2050 (2021).

utmost importance for UKEF implement a robust GHG accounting system, as proposed in recommendation one earlier.

Climate finance

Recommendation eight: Set new targets for UKEF: a) a year-on-year increase for the proportion of climate-friendly financing across all of UKEF's portfolio, and b) that half of all financing will be climate-friendly as soon as possible

With a new robust and transparent system to track and report climate finance, as proposed in recommendation two, we then also recommend that UKEF set a target that of a year-on-year increase in the share of climate-friendly financing across all UKEF's portfolio.

We would also recommend a target of 50% climate-friendly finance over the total portfolio in the short run, in line with the most ambitious targets by the multilateral development banks.

Recommendation nine: Introduce a climate-reward system for exporters for UKEF financing, such as smaller premium or interest payments

We recommend devising and implementing an effective climate-reward system across UKEF's entire portfolio. This could include enabling smaller premium or interest payments for projects that meet UKEF´s 'clean growth' eligibility, or other robust climate-friendly activities. This would create an additional incentive for UK exporters of clean technologies and is, in fact, something that is supported by the UK exporters themselves, as Chart 4.2 earlier showed.

Engagement

Recommendation ten: The UK should build on COP26 momentum to expand the Statement on International Public Support for the Clean Energy Transition and the OECD

Arrangement to include phasing out fossil fuel support and closing remaining loopholes

As co-host of COP26, the UK did manage to create momentum on climate action in the export finance system. Most notably, the Statement on International Public Support for the Clean Energy Transition[119], launched at COP26 and explained in detail in Chapter Two, commits the signatories to phase out public support to unabated fossil fuels by the end of 2022. At the time of writing, this Statement had 39 signatories, including 34 governments and five financial institutions. In addition, in the run up to COP26, the OECD Arrangement – the most relevant binding international agreement related to ECAs, as documented in Chapter Two – was recently reformed to phase out export finance support to unabated coal projects.

We recommend the UK further build on this momentum and engage in both multilateral fora – such as the OECD – and in bilateral exchanges – for example, with China – to further advance a decarbonisation of the global export finance system.

In particular, the Statement on International Public Support for the Clean Energy Transition and the OECD Arrangement now needs to be extended to include phasing out support for oil and gas, without any loopholes. An enhanced international commitment to phase out public support for all fossil fuel projects is needed, and the UK needs to take the lead in shaping it.

By the UK demonstrating that this is possible, through recommendations five and six above, even in a country with historically and still important exports in the oil and gas industry, the UK can lead the way and liaise with other countries to support them in implementing a complete phase-out, without any loopholes, of all types of fossil fuel projects supported by export finance.

119. COP26, "Statement on International Public Support for the Clean Energy Transition" https://ukcop26.org/statement-on-international-public-support-for-the-clean-energy-transition (2021).

Conclusion

This report aimed to serve as a stepping stone to fully align UKEF with the Paris Agreement and provide a model that can help other countries spur necessary reforms in their ECAs. Through the application of our dedicated ECA Paris alignment methodology we identified areas where the UK demonstrated international leadership as well as areas where further improvement is required. By implementing our recommendations outlined above, the UK would be able to achieve full alignment of its export finance with the Paris agreement and motivate other countries to follow suit.

Annex: ECA Paris alignment methodology

The tables below show all key questions and benchmarks across the five assessment dimensions applied by Perspectives Climate Group.

Dimension 1. Transparency: Financial and non-financial disclosures

	Key question	Key data sources	'Unaligned'	'Some Progress'	'Paris aligned'	'Transformational'
Q1	To what extent can the **GHG intensity** of all activities supported by the ECA be assessed based on publicly available data? (Non-financial disclosure)	Internal sustainability and GHG reporting	• No possibility whatsoever, i.e., the ECA does not engage in GHG accounting at project or portfolio level	• Limited grounds on which to assess GHG intensity, i.e., disclosure exists only for selected subset of activities or only scope 1 and 2 AND • Announcement to align GHG reporting with international standards	• GHG emissions (scope 1 and 2, and 3 where appropriate) are reported according to international standards of financed or insured emissions and their attribution (e.g., GHG Protocol, PCAF)	• GHG emissions (Scope 1 and 2, and 3 where appropriate) are reported according to international standards of financed or insured emissions and their attribution (e.g., GHG Protocol, PCAF) AND • reporting includes information on baselines and lifetime GHG emissions of assets
Q2	To what extent can the share of **climate finance** over *total portfolio* be assessed? (Financial disclosure)	Public communications, ECAs	• No possibility whatsoever, i.e., ECA does not disclose the necessary financial information	• Limited possibility to assess climate finance, i.e., some project level information and definitions available OR • Announcement to improve climate-related financial disclosure over the short term (i.e., within two years)	• Possibility of comprehensive assessment, i.e., climate-related and non-climate-related financial disclosure exists for *total portfolio* AND • Clear in-house definition of climate finance or adherence to international standard	• Possibility of comprehensive assessment AND • Possibility of comprehensive assessment of credible 'green' or 'sustainable' finance over total portfolio (e.g., according to the EU Taxonomy and the latest climate science) AND • Activities listed as 'climate', 'green' or 'sustainable' do not contribute to global carbon lock-in

	Key question	Key data sources	'Unaligned'	'Some Progress'	'Paris aligned'	'Transformational'
Q3	To what extent can the share of **fossil fuel finance** over total portfolio be assessed? (Financial disclosure)	Public communications, ECAs	• No possibility whatsoever, i.e., ECA does not disclose the necessary financial information	• Limited possibility to assess fossil fuel finance, i.e., some project level information and necessary definitions available OR • Announcement to improve financial disclosure over the short term (i.e., within two years)	• Comprehensive possibility to assess fossil fuel finance, i.e., project level information and necessary definitions available AND • Clear in-house definition of fossil fuel finance adhering to international standard or best practice	• Possibility of comprehensive assessment AND • Transparent communication of fossil fuel finance including justifications of 'exceptional fossil fuel financing' in line with clear phase-out plans
Q4	To what extent does the institution adhere to the Recommendations and Supporting Recommended Disclosures of the **Task Force on Climate-related Disclosure (TCFD)?**	Public communications, ECAs	• No adherence or commitment to adhere whatsoever	• Partially covers the disclosure dimensions recommended by the TCFD OR • Announcement of adherence over the short term (i.e., within two years)	• Regular disclosure fully in line with the TCFD for at least one FY	• Disclosure fully in line with the TCFD for at least one FY AND • Reporting of activities with taxonomies on sustainable finance (e.g., EU Taxonomy) AND • Commitment to shift reporting from the TCFD to the Task Force of Nature-related Financial Disclosure (TNFD) as soon as recommendations are available

Dimension 2. Mitigation I: Ambition of fossil fuel exclusion or restriction policies

	Key question	Key data sources	'Unaligned'	'Some Progress'	'Paris aligned'	'Transformational'
Q1	**Coal:** How ambitious is the ECA regarding exclusions or restrictions for support of coal and the related value chain?	Public communications ECAs	• Continued support of coal and related value chain AND • Absence of policies beyond the OECD CFSU OR • Evidence for substantive deviation from stated policies OR • Generically stated policies without clear timeline, commitment or scope of action	• Policies in effect significantly restricting support of coal and related value chains OR • Announcement to exclude coal and related value chains over the short term (i.e., within two years)	• Policies in place excluding coal and related value chains with immediate effect and no deviation OR • Demonstration of non-engagement in entire coal value chain	• Policies in effect excluding coal and related value chain AND • Complementary policies or programmes of early retirement/ replacement of assets AND • Evidence for overachievement of stated policies OR • Complementary policies or programmes to compensate job-losses or other socially adverse transition risks caused by exclusion policies in home country or abroad ('contribution to a just transition')
Q2	**Oil:** How ambitious is the ECA regarding exclusions or restrictions for support of oil and the related value chain?	Public communications ECAs	• Continued support of oil and related value chain OR • Evidence for substantive deviation from stated policies OR • Generically stated policies without clear timeline, commitment or scope of action	• Policies in effect significantly restricting support of oil and related value chains OR • Announcement to exclude oil and related value chains over the short term (i.e., within two years)	• Policies in place excluding oil and related value chains with immediate effect and no deviation OR • Demonstration of non-engagement in entire oil value chain	• Policies in effect excluding oil and related value chain AND • Complementary policies or programmes of early retirement/ replacement of assets AND • Evidence for overachievement of stated policies OR • Complementary policies or programmes to compensate job-losses or other socially adverse transition risks caused by exclusion policies in home country or abroad ('contribution to a just transition')

	Key question	Key data sources	'Unaligned'	'Some Progress'	'Paris aligned'	'Transformational'
Q3	**Natural gas:** How ambitious is the ECA regarding exclusions or restrictions for support of gas and related value chain?	Public communications ECAs	• Continued support of natural gas and related value chain OR • Evidence for substantive deviation from stated policies OR • Generically stated policies without clear timeline, commitment or scope of action	• Policies in effect significantly restricting support of natural gas and related value chains OR • Announcement to exclude natural gas and related value chains over the short term (i.e., within two years)	• Policies in place excluding natural gas and related value chains with immediate effect and no deviation OR • Demonstration of non-engagement in entire natural gas value chain	• Policies in effect excluding natural gas and related value chain AND • Evidence for overachievement of stated policies AND • Complementary policies or programmes of early retirement/ replacement of assets (includes targeted re-use of infrastructure for green hydrogen production or transport) OR • Complementary policies or programmes to compensate job-losses or other socially adverse transition risks caused by exclusion policies in home country or abroad ('contribution to a just transition')

Dimension 3. Mitigation II: Climate impact of and emission reduction targets for all activities

	Key question	Key data sources	'Unaligned'	'Some Progress'	'Paris aligned'	'Transformational'
Q1	Can a **declining trend in GHG intensity** of the total portfolio be observed? (tCO2e/ bn USD, scope 1-3 emissions)	ECA internal climate impact analyses (only example: bpifrance)	• GHG intensity of total portfolio unavailable OR • Increasing or constant trend over the past three years	• GHG intensity available in parts of the portfolio OR • Slightly decreasing GHG intensity over the past three years (<3% p.a. compared to first year of comprehensive GHG accounting)	• GHG intensity of total portfolio available AND • Significantly decreasing trend over the past three years (>3% p.a. compared to first year of comprehensive GHG accounting)	• GHG intensity of total portfolio available AND • Significant drop (>20%) in GHG intensity of the total portfolio over the last three years AND • Adherence to international standards seeking to establish comparability among institutions (e.g. GHG Protocol, PCAF)
Q2	How significant is the **fossil fuel financing** relative to total energy-related portfolio? (average of new commitments from the last three years where data is available)	OCI 2020 database; Fossil fuel exclusion policies	• No data available OR • Value higher than 30%	• Value continually decreasing and between <30% and >0% AND • Announcement to reduce this share further	• Value zero OR • Targeted policies in place to reach zero over the short term (coal, oil and gas)	• Value zero AND • Evidence of intentional phase out from fossil fuels (otherwise mark as PA)

	Key question	Key data sources	'Unaligned'	'Some Progress'	'Paris aligned'	'Transformational'
Q3	To what extent do all emission-relevant sectors have targeted GHG reduction targets and to what extent are GHG reduction targets **in line with** benchmarks of **acceptable 1.5°C pathways?**	Internal sustainability and GHG reporting, public communications ECAs and independent observers	• No targets in emission-relevant sectors OR • Not in line with acceptable 1.5°C pathways	• Existence of targets in all emission-relevant sectors AND • Announcement to increase ambition over the medium term (i.e. within less than 5 years) to be in line with acceptable 1.5°C pathways OR • Announcement to offer favourable financing conditions for clients with SBTs	• Existence of targets in all emission-relevant sectors AND • Submitted science-based targets (SBTi) (or announcement to submit over the short term) to reduce portfolio emissions covering Scopes 1, 2 and 3	• Existence of targets in all emission-relevant sectors AND • Accepted science-based target (SBTi) to reduce portfolio emissions (or better), covering Scopes 1, 2 and 3. OR • Overachieving sectoral benchmarks (GHG intensities per output of product, e.g. as defined by the SBTi Sectoral Decarbonization Approach, SDA)

Dimension 4. Climate finance: Positive contribution to the global climate transition

	Key question	Key data sources	'Unaligned'	'Some Progress'	'Paris aligned'	'Transformational'
Q1	What is the reported share of **climate finance** over total portfolio?	Public communications ECAs; Own calculations	• No data available OR • Share < 5%	• Share between 5% and 20% AND • Continuous upward trend of share over the past three FYs for which data is available	• Share between 20% and 50% AND • Continuous upward trend of share over the past three FYs for which data is available	• Share > 50% AND • Continuous upward trend of share over the past three FYs for which data is available
Q2	How can the quality/ appropriateness of climate finance earmarks be assessed?	Public communications ECAs	• No climate finance reporting OR • No robust/ comparable earmarking of climate finance	• In-house system of climate finance earmarking AND • Announcement to follow common climate finance earmarks, e.g., OECD Rio Markers or MDB Joint Approach	• Adoption of common climate finance earmarks AND • Exclusion of retrofits of existing fossil fuel power plants due to risk of carbon lock-in from climate finance accounting	• Adoption of common climate finance earmarks AND • Exclusion of retrofits of existing fossil fuel power plants due to risk of carbon lock-in from climate finance accounting AND • Follows the recommendations of the independent expert group to transform climate finance OR • Development of tailor-made methods to count climate finance in the export finance system

	Key question	Key data sources	'Unaligned'	'Some Progress'	'Paris aligned'	'Transformational'
Q3	What is the **share of clean energy financing** over total energy-related portfolio? (average of new commitments from the last three years where data is available)	OCI 2020 database	• No data available OR • < 70% AND • No clear trend in support of clean energy financing	• > 70%, as of the last FY for which data is available AND • Continuous upward trend of share over the past three FYs for which data is available AND • Fossil fuel finance does not increase in absolute terms over the same period of time	• 100%, as of the last FY for which data is available	• 100%, as of the last FY for which data is available AND • Evidence that institution has successfully phased out fossil fuel finance in its portfolio over the past years
Q4	To what extent does the pricing structure take into account climate impacts of activities?	Public communications ECAs and independent observers	• No incentive structure for climate-friendly activities	• Announcement for the implementation of a climate reward based on the climate impact of activities (e.g., smaller premiums or interest paid for activities on a 'climate', 'green' or 'sustainable' list)	• Implementation of an effective climate reward based on the climate impact of activities (e.g., smaller premiums or interest paid for activities on a 'climate', 'green' or 'sustainable' list)	• Implementation of an effective climate reward based on the climate impact of activities (e.g., smaller premiums or interest paid for activities on a 'climate', 'green' or 'sustainable' list) AND • Implementation of a climate reward based on the compliance with EU Taxonomy and in line with the latest climate science

	Key question	Key data sources	'Unaligned'	'Some Progress'	'Paris aligned'	'Transformational'
Q5	In how far does the institution ensure positive sustainable development impacts of its activities?	Public communications ECAs	• Predominantly negative contribution (including lack of guidelines to ensure positive sustainable development contributions)	• Announcement of aligning internal strategies, mandate and implementation of activities with sustainable development goals and safeguards against negative impacts	• Evidence for strong synergies with national development agencies OR • Mandate that includes contributions to sustainable development goals and safeguards against negative impacts	• Stakeholder perception of ECA being an international leader (good press analysis) AND • Strong synergies with national development agencies AND • Mandate that includes contributions to sustainable development goals and safeguards against negative impacts

Dimension 5. Engagement

	Key question	Key data sources	'Unaligned'	'Some Progress'	'Paris aligned'	'Transformational'
Q1	To what extent does the institution itself or its government actively engage in relevant international fora (e.g., E3F, OECD, the Berne Union, WTO, or the World Economic Forum) to liaise with like-minded for ambitious climate policies in the export finance system?	Public communications ECAs and independent observers	• No active engagement OR • Evidence of exerting significant peer pressure against climate-related policy reform	• Some engagement AND • No opposition against climate-related policy reform	• Assuming institutional leadership and responsibility for revisions and additions of fossil fuel-related sector understandings (OECD Arrangement 'Participants' only) OR • Demonstration of a 'policy push' outside the OECD Arrangement (both 'Participants' and 'non-Participants')	• Demonstrated breakthroughs in international climate diplomacy relevant for the global export finance system, e.g., in negotiations with China

	Key question	Key data sources	'Unaligned'	'Some Progress'	'Paris aligned'	'Transformational'
Q2	To what extent does the institution itself or its government actively engage in relevant national fora with view to implementing ambitious climate policies in the (national) export finance system?	Public communications ECAs and independent observers	• No active engagement	• Some engagement AND • No opposition to structural change of domestic export sectors	• Assuming institutional leadership to design policies for structural change of domestic export sectors (e.g., through active re-training programmes, or subsidies for new and innovative business development in non-fossil value chains)	• Demonstrated achievements of the government´s active role in transforming domestic export sectors
Q3	To what extent does the institution or its government actively engage with national companies to transform fossil fuel-related value chains and incentivize low GHG exports?	Public communications ECAs; Historic changes of portfolio composition	• No active engagement OR • ECA clearly 'reactive' (only demand-driven), rather than 'proactive' (demand-steering) for supporting business transactions abroad	• Announcement to proactively engage with main emission-relevant national export sectors	• Clear proactive role of ECA and its government in enabling innovation and exports of goods and services in low GHG sectors OR • Dedicated incentive schemes	• Demonstrated achievements of the government´s active role in transforming domestic export sectors (for example, evidence for a facilitated transition of exporting capital goods or services in fossil fuel value chains to renewable energy technologies or other)

Export Credit Agencies (ECAs) are government-backed finance institutions that provide financial support such as loans, insurance and guarantees to exporters of goods and services. However, contrary to their commitments under the Paris Agreement on climate change, many countries still provide significant amounts of financial support to fossil fuel projects from exporters through their ECAs.

Last year, the UK became the first country to actually implement – not just commit to – a phase out of most financing and insurance from UK Export Finance (UKEF) for the development of fossil fuel export projects overseas.

Despite this, the extent to which UKEF is fully aligned with the Paris Agreement generally remains unclear and doubtful. This report seeks to investigate this further, offering recommendations to fully align UKEF with the Paris Agreement so it becomes a model that can help other countries spur necessary reforms in their ECA.

Bright Blue Campaign
brightblue.org.uk

ISBN: 978-1-911128-53-3

bright blue