House of Commons
Environmental Audit Committee

UK Export Finance

Nineteenth Report of Session 2017–19

Report, together with formal minutes relating to the report

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Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty’s Ministers; and to report thereon to the House.

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Specialist Adviser

Angus Gillespie

Contacts

All correspondence should be addressed to the Clerk of the Environmental Audit Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 8890; the Committee’s email address is eacom@parliament.uk.

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Summary

UK Export Finance (UKEF) is the UK’s export credit agency (ECA). It helps UK companies access export finance, which are loans, insurance policies or bank guarantees that enable international trade to take place. Its 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.”

UKEF’s support for fossil fuel energy projects is unacceptably high, particularly in low- and middle-income countries. UKEF gave £2.6 billion to support the energy sector between 2013/14 and 2017/18. Of this, 96% (£2.5 billion) went to fossil fuel projects, with the £2.4 billion going to fossil fuel projects in low- and middle-income countries.

While there has been an increase in the proportion of support given to renewables projects in high-income countries in recent years, this is not reflected in support to low- and middle-income countries. In 2017/18, 96% of UKEF’s energy support to high income countries went to renewables and 4% to fossil fuel projects. By contrast, just 0.6% of UKEF’s energy support to low- and middle-income countries in 2017/18 went to renewables, and 99.4% went to fossil fuel projects. This level of support for fossil fuel energy projects does not respect the Paris Agreement, which commits signatories to “[Make] finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.”

Witnesses told the Committee that UKEF was risking stranded assets and “locking in” reliance on fossil fuel energy production for decades to come in areas where energy demand is set to increase. At a time when the UK Parliament has declared a “climate change emergency,” the Catholic Agency for Overseas Development have described UKEF’s activities as the “elephant in the room’ undermining UK climate and development leadership.” Former UN Secretary General, Ban Ki-moon urged that UKEF’s policy needs “recalibration” to meet international climate trends and obligations and wrote that “the best way for any country to avoid climate complacency is to develop robust, holistic and people-centred policies across government, so short-term trade or financial priorities do not trump the wider imperative of cutting global emissions.”

Although UKEF’s support to UK businesses in the energy sector is demand-led and makes up just 0.02% of global oil and gas investment, UKEF’s support “de-risks investments” and “sends a clear signal” to the wider investment market, attracting further finance to the projects which it chooses to support. Changes to UKEF’s climate-related practices could have significant symbolic and real-world value as evidence of the UK’s leadership on tackling climate change. UKEF have already shown some willingness to address climate concerns by phasing out coal support (through the Powering Past Coal Alliance), following consultation, after the 2015 Paris Agreement.

Other export credit agencies have already gone further than UKEF. The Swedish Export Credit Corporation (SEK) caps its fossil fuel operations at 5% of total lending, and in 2018 fossil fuels made up less than 1% of its total lending. Canada’s Export Development Canada (EDC) introduced a Climate Change Policy in January 2019, committing

1 United Nations, Paris Agreement, (2015), Article 2.1.a
the EDC to measure, monitor and disclose climate-related risks and opportunities, integrating climate change considerations into business decisions and encouraging partners to do the same.

This Committee is calling for UKEF’s mandate to be changed by the end of the year to ensure that UKEF’s support is aligned with the UK’s climate leadership and climate commitments, and to ensure that it is supporting a transition to net zero emissions by 2050. This would ensure that UKEF’s activities are contributing a just and sustainable energy transition in line with the IPCC and CCC’s strong advice to keep temperature below 1.5°C of global heating. It calls on Government to introduce a strategy to end support to new fossil fuel energy projects by 2021.

It also recommends that UKEF should leverage its position among other OECD ECAs to ensure multilateral action towards net zero emissions, report on the forecast and actual emissions of its entire portfolio, including scope 3 emissions, to ensure maximum transparency, and commit to follow recommendations by the Task Force on Climate-related Financial Disclosures to quantify and report its exposure to stranded assets due to climate change and actions to support energy transition.
1 Introduction and Background

UK Export Finance

1. UK Export Finance (UKEF) is the operating name of the Exports Credits Guarantee Department, the UK’s export credit agency (ECA). Its 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.” UKEF works with around 70 private credit insurers and lenders to help UK companies access export finance, which UKEF defines as “the particular class of loans, insurance policies or bank guarantees that enable international trade to take place as easily and securely as possible.” Although ECAs support a relatively small proportion of national exports (typically between 0% and 3% among OECD ECAs) their help can be critical in making those exports happen. UKEF supports 0.3% of the UK’s national exports.

2. To fulfil its role, UKEF fills gaps in the private sector’s provision of finance and insurance, in particular becoming “involved in transactions where there are risks which the commercial market will not accept without ECA support.” This may include risks derived from the length of the financing period, commercial market capacity, the jurisdiction in which the project is to be undertaken or the credit quality of the recipient of the finance. UKEF aims to “complement not compete with the private sector.” Borrowers pay commercial rates of interest as well as a risk premium, which allows UKEF to meet its objective of operating at no net cost to the taxpayer. UKEF “price for [the] risk” that it covers and returned £500 million to the Treasury in the last five years.

3. UKEF reports to the Secretary of State for International Trade and is strategically and operationally aligned with the Department for International Trade (DIT). However, in terms of its legal status it is not an agency of DIT but has been a separate government department since it was first established under an Act of Parliament in 1919. The Secretary of State for International Trade is advised on UKEF’s operations by the Export Guarantees Advisory Council (EGAC), an Expert Committee. This includes advice on the environmental, social and human rights (ESHR) impacts of the projects UKEF supports.

4. UKEF derives its powers from the Export and Investment Guarantee Act 1991 (EIGA). It also operates under the OECD Arrangement on Officially Supported Export Credits, a “gentleman’s agreement” which aims to foster a level playing field in the use of export credits to encourage competition among exporters based on the quality and prices of goods and services exported, rather than on the most favourable officially supported export credits.

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2 Gov.UK, UK Export Finance: About Us, [date accessed 29/04/2019]
3 Ibid.
4 UK Export Finance (EXF0009)
5 Ibid.
6 Gov.UK, UK Export Finance: About Us, [date accessed 29/04/2019]
7 Export Guarantees Advisory Council (EXF0023)
8 Louis Taylor, Q317
9 UK Export Finance (EXF0009)
10 Export Guarantees Advisory Council (EXF0023)
11 OECD, Arrangement on Officially Supported Export Credits, (July 2018, updated January 2018), p.10
UKEF’s ESHR policies are subject to the OECD Council Recommendation on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (the Common Approaches) and, since 2016, the Equator Principles.  

5. The EIGA provides that UKEF may only exercise its powers under the EIGA with the consent of the Treasury. Under this consent, UKEF has a total capacity to support UK exports of £50 billion, and this is made available to support businesses of all sizes and in all sectors. At present, UKEF’s liabilities under these insurances, guarantees and loans are predominantly contingent, and amount to around £31 billion. Under the EIGA, claims, calls or loans on UKEF’s insurances, guarantees and loans are met out of the funds voted by Parliament or charged on the Consolidated Fund.

6. UKEF has received criticism for the proportion of its support for the energy sector which goes to fossil fuel projects. Between 2013/14 and 2017/18, 21% of UKEF’s support (£2.6 billion) was for the energy sector. Of this, 96% went to fossil fuel projects. UKEF has emphasised that its support is “demand driven,” and that “the volume and proportion of UKEF’s support for UK exports in specific sectors is to some extent a reflection of prevailing private sector liquidity and risk appetite.”

Box 1: Example of UKEF’s support: ENKA UK

In August 2017, UKEF announced its support for ENKA UK and General Electric to deliver “two critical power projects in Iraq.” GE was the engineering, procurement and construction (EPC) contractor for the projects and ENKA UK the main subcontractor. ENKA said the projects provided “great opportunities for UK exporters of goods and services to participate in these transformational projects in Iraq.”

ENKA UK received £88 million (maximum liability) initial stage financing from UKEF in supplier credit and letter of credit guarantees, to support ENKA UK’s participation in two power plant construction in Iraq, with the Iraqi Ministry of Electricity. ENKA UK was UKEF’s largest liability for an energy project, and its ninth largest liability overall, in 2017/18. ENKA UK has received $620 million (approximately £490 million) in support from UKEF for phase two of the projects.

ENKA UK is a subsidiary of a Turkish company parent company (ENKA İnşaat ve Sanayi A.Ş.), which is the largest construction firm in Turkey. ENKA UK filed as...

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12 Export Guarantees Advisory Council (EXF0023)
13 Export and Investment Guarantees Act, (1991), 4(2)
14 UK Export Finance (EXF0009)
15 Ibid.
16 Contingent liabilities are potential liabilities that may or may not occur, depending on the result of an uncertain future event (Corporate Finance Institute, Contingent Liability, accessed 13/05/2019)
17 Calculated based on written evidence by UK Export Finance (EXF0028)
18 UK Export Finance (EXF0009)
19 UK Export Finance Press release on Gov.uk, UKEF helps GE and ENKA UK secure contract to support Iraq’s energy security, (9 August 2017), [accessed 13/03/2019]
20 Ibid.
21 Ibid.
22 UK Export Finance, Business supported 2017 to 2018, (20 June 2018)
23 Ibid.
24 Louis Taylor, Q216
25 Companies House, ENKA UK Construction Limited: Incorporation, (December 2016) [accessed 13/03/2019]
a UK company in December 2016. ENKA UK did not have a physical office, staff or operations in the UK, but told the Committee that in February 2019 they started proceedings to open a procurement office in Birmingham with 12 staff. UKEF’s support for ENKA UK was based instead on UKEF’s public policy that they will support projects with a minimum 20% UK content, supporting UK providers of goods and services. In the case of ENKA UK, UKEF’s CEO Louis Taylor told us that around $250 million (40%) would be committed to UK content out of $620 million financing for phase two of the projects.

The combined predicted GHG emissions from the two power plants is 6.88 megatons (6.88 billion kg) CO₂ equivalent each year, assuming that the plants run solely on natural gas as the primary fuel. However, both have light distillate oil and heavy fuel oil as secondary fuels, which have much higher emissions profiles. ENKA UK told the Committee UKEF that with UKEF’s involvement, they upgraded the plant turbines and changed the planned primary fuel for the power plant from heavy fuel and crude oil to natural gas.

Source: Various, see footnotes

Our inquiry

7. In December 2018, we launched an inquiry into UK Export Finance, investigating the scale and impact of UKEF’s support for fossil fuel energy projects overseas. We received 34 written responses to the inquiry and are grateful to those who took the time to contribute. We held four hearings, the first with leading academics to explore the actions required from the UK Government to meet the Paris Agreement’s 1.5°C and 2°C warming targets from a scientific and legal perspective. The second examined key themes raised by campaign groups and finance specialists on the nature and consequences of UKEF’s support for fossil fuel energy projects overseas. The third considered evidence from businesses and the Export Guarantees Advisory Council on UKEF’s application process and environmental considerations, before hearing evidence from the Chief Executive of UKEF and Ministers from the Department for International Trade and the Department for Business, Energy and Industrial Strategy. The fourth heard evidence from a company building two power plant projects in Iraq, supported by UKEF.

Background: Emissions, climate change and international agreements

Paris Agreement

8. The Paris Agreement on Climate Change is the first legally binding global climate deal. It was developed as part of the United Nations Framework Convention on Climate Change (UNFCCC), and was signed in 2015 by 196 national governments, who pledged to:

[Hold] 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, recognizing that this would significantly reduce the risks and impacts of climate change.\textsuperscript{33}

The signatories also committed to:

[Make] finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.\textsuperscript{34}

Sustainable Development Goals

9. In September 2015, the UK was one of 193 UN member states that adopted the United Nations’ 2030 Agenda for Sustainable Development (the Agenda), committing to working “tirelessly for the full implementation of this Agenda by 2030.”\textsuperscript{35} The Agenda consists of 17 Sustainable Development Goals (SDGs), broken down into 169 targets. The SDGs are “universal,” applying to the entire world “developed and developing countries alike.”\textsuperscript{36} The Agenda includes a pledge that the targets should be “met for all nations and people and for all segments of society” and promises to “endeavour to reach the furthest behind first.”\textsuperscript{37}

10. Several of the SDGs and underlying targets relate to emissions, energy and climate change, including:

a) SDG 7: Affordable and clean energy - Ensure access to affordable, reliable, sustainable and modern energy for all;
   i) Target 7.2: By 2030, increase substantially the share of renewable energy in the global energy mix;
   ii) Target 7.A: By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology.

b) SDG 9: Industry, innovation and infrastructure - Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation;

\textsuperscript{33} United Nations, Paris Agreement, (2015), Article 2.1.a
\textsuperscript{34} Ibid.
\textsuperscript{35} United Nations, Transforming our world: the 2030 Agenda for Sustainable Development, A/RES/70/1, (2015) para 2
\textsuperscript{36} Ibid., para 5
\textsuperscript{37} Ibid., para 4
i) Target 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.

c) SDG 12: Ensure sustainable consumption and production patterns;

i) Target 12.c: Rationalize inefficient fossil fuel subsidies that encourage wasteful consumption by removing market distortions.

d) SDG 13: Climate action - Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy.

i) Target 13.2: Integrate climate change measures into national policies, strategies and planning.  

Consequences of global heating

11. Scientists have emphasised that no specific temperature target should be considered a safe limit. In 2018, the Intergovernmental Panel on Climate Change (IPCC) published its Special Report into Global Warming of 1.5°C, looking at the impacts of global heating of 1.5°C above pre-industrial levels, and related global greenhouse gas (GHG) emissions pathways. Given the 1°C of warming that has already taken place since pre-industrial times, the civil society organisation Both ENDS pointed out that the IPCC report:

Confirms that the world is already seeing the impacts of global warming through more extreme weather, rising sea levels and diminishing Arctic sea ice, among other changes.

12. Similarly, the Overseas Development Institute highlight that:

Increasing climate variability and climate change are resulting in a higher frequency of extreme weather events and placing additional stress on livelihoods, both of which affect the world’s poorest and the resources and systems on which they depend.

13. While much of the focus on global heating centres around the consequences of aggregate CO₂ emissions, there are other consequences of fossil fuel generation and use. Fuel combustion from motor vehicles, heat and power generation and industrial facilities, release dangerous air pollutants to the atmosphere. The World Health Organisation estimates that 4.2 million premature deaths every year are caused by ambient (outdoor)

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40 Both ENDS (EXF0005)
41 Overseas Development Institute (EXF0004)
air pollution, caused mainly by human activity, but a recent study in the European Heart Journal found that the actual number of premature deaths could be twice as high, with 8.8 million deaths worldwide, 800,000 in Europe and 64,000 in the UK.\textsuperscript{43}

14. Most of these deaths are from heart disease, stroke, chronic obstructive pulmonary disease, lung cancer and acute respiratory infections in children.\textsuperscript{44} While nine out of ten people live in areas that do not meet WHO air standards, people living in low and middle-income countries disproportionately bear the burden of outdoor air pollution, with 91% of the deaths occurring in those countries.\textsuperscript{45}

\textbf{Consequences of failing to meet the 1.5°C and 2°C targets}

15. Prior to the Paris Agreement, climate negotiations had focused on a 2°C target. However, interest in a 1.5°C target increased from 2008, driven by small island states’ concerns about risks from sea level rise at 2°C.\textsuperscript{46} The IPCC 2018 Special Report results from members state requesting the IPCC to strengthen scientific evidence on the implications and impacts of limiting warming to 1.5°C rather than 2°C.\textsuperscript{47}

16. The IPCC report confirmed that “climate related risks for natural human systems are higher for global heating of 1.5°C than at present, but lower than at 2°C (high confidence).”\textsuperscript{48} It also highlighted that “these risks depend on the magnitude and rate of warming, geographic location, levels of development and vulnerability, and on the choices and implementation of adaptation and mitigation options.”\textsuperscript{49} Therefore, while global emissions will contribute to climate change, the impacts of climate change will vary regionally. So far, warming has been greater over land than over oceans, and has been greatest in Arctic regions.\textsuperscript{50}

17. WWF highlight some of the IPCC’s expected impacts of warming at 1.5°C and 2°C levels:

At 2 degrees the risks from drought, floods, tropical cyclones, sea level rise, species loss and extinctions are all much higher than at 1.5 degrees. For example, by the end of the century a 2 degrees rise means an extra 10cm rise in sea level rise puts an additional 10 million people at risk compared to 1.5 degrees. Even at 1.5 degrees the ranges of many marine species will shift and there is significant damage to marine ecosystems and coastal resources, coral reefs, for example, are projected to decline by a further 70–90% at 1.5 degrees and be lost entirely at 2 degrees.\textsuperscript{51}


\textsuperscript{44} World Health Organisation, \textit{Air Pollution: Ambient air pollution: Health impacts}, 2018 [30 January 2019]

\textsuperscript{45} World Health Organisation, \textit{Ambient (outdoor) air quality and health}, 2018 [accessed 30 January 2019]


\textsuperscript{47} Ibid.

\textsuperscript{48} IPCC, Special Report, 2018

\textsuperscript{49} Ibid.


\textsuperscript{51} WWF (EXF0007)
18. The IPCC report also warned that risks are higher if average warming overshoots 1.5°C before returning to that level:

Future climate-related risks depend on the rate, peak and duration of warming. In the aggregate, they are larger if global warming exceeds 1.5°C before returning to that level by 2100 than if global warming gradually stabilizes at 1.5°C, especially if the peak temperature is high (e.g., about 2°C) (high confidence). Some impacts may be long-lasting or irreversible, such as the loss of some ecosystems.\(^{52}\)

19. Further details on the expected consequences of increasing global temperatures can be found in Appendix 1.

**Greenhouse Gases**

20. The Parliamentary Office of Science and Technology Postnote, Limiting Global Warming to 1.5°C, explains the role of greenhouse gases (GHGs) in the 1°C of global heating seen since pre-industrial times, and the current global temperature rise of 0.2°C per decade:

- Carbon dioxide (CO₂) is the GHG emitted in greatest quantity by human activity. It is the most dominant GHG over long time periods, as it is chemically stable and can remain in the atmosphere for many thousands of years.

- Non-CO₂ GHGs include methane, nitrous oxide and hydrofluorocarbons (HFCs), among others. Nitrous oxide and some HFCs persist for centuries. Others, such as methane and black carbon, are ‘short-lived climate pollutants’ (SLCPs), which generally break down in the atmosphere within decades. SLCPs cause greater warming in the short term.\(^{53}\)

21. The Postnote summarises the relative role which the GHGs play in the rise in global temperature:

Long-term temperature rise is primarily dependent on the cumulative amount of CO₂ emitted by human activity since pre-industrial times (as well as some long-lived non-CO₂ GHGs such as nitrous oxide). High annual SLCP emissions increase the rate of warming in coming decades, which makes limiting warming to 1.5°C more challenging.\(^{54}\)

**The Intergovernmental Panel on Climate Change 2018 report**

22. The Intergovernmental Panel on Climate Change (IPCC) 2018 report calculates that to limit global heating to 1.5°C, global net human CO₂ emissions must decline by about 45% from 2010 levels by 2030, reaching net zero by 2050.\(^{55}\) To limit global heating to below 2°C, emissions must decline by about 25% by 2030, and reach net zero around 2070.\(^{56}\)

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\(^{52}\) IPCC, Special Report, p.7


\(^{54}\) Ibid., p.2

\(^{55}\) IPCC, Special report, p.14

\(^{56}\) Ibid.
23. The IPCC report says that to keep global heating to 1.5°C with no or limited overshoot:

Would require rapid and far-reaching transitions in energy, land, urban and infrastructure (including transport and buildings), and industrial systems (high confidence). These systems transitions are unprecedented in terms of scale, but not necessarily in terms of speed, and imply deep emissions reductions in all sectors, a wide portfolio of mitigation options and a significant upscaling of investments in those options (medium confidence).\textsuperscript{57}

24. To reach these goals, social and technological changes will be required in relation to:

a) Energy systems (demand reduction and reduction in energy from fossil fuel sources);

b) Lifestyle and behaviour (for example, reducing demand for high-CO₂ transport and meat);

c) Difficult to decarbonise sectors (for example, agriculture, industry and some transport); and

d) CO₂ removal using Greenhouse Gas Removal (GGR) (Carbon Capture and Storage and land use changes e.g. afforestation).\textsuperscript{58}

25. The Parliamentary Office of Science and Technology highlights that “a 1.5°C target can be met using a combination of the above and GGR. Pathways involving greater lifestyle change rely less on GGR.”\textsuperscript{59}

**Net zero emissions**

26. POST explains the concept of “Net” global emissions of GHGs in the context of carbon dioxide (CO₂):

Net zero occurs when human CO₂ emissions are equal to the amount removed from the atmosphere by GGR [Greenhouse Gas Removal].\textsuperscript{60}

27. Methods of GGR include enhancing natural land sinks and transferring CO₂ to geological storage.\textsuperscript{61} Increasing tree cover and improving forest management, increasing the amount of carbon stored in soil and ocean sediments and restoring peatlands have all been suggested as GGR approaches involving enhancing natural land sinks.\textsuperscript{62}

**Committee on Climate Change 2019 report**

28. In May 2019, the Committee on Climate Change (CCC) recommended a new GHG emissions target for the UK of net-zero by 2050 (with net-zero GHG by 2045 for Scotland and a 95% reduction from 1990 levels by 2050 for Wales).\textsuperscript{63} It judged that this was “necessary, feasible and cost-effective,” and would “respond to the latest climate

\textsuperscript{57} Ibid., p.17

\textsuperscript{58} Parliamentary Office of Science and Technology, Postnote 594: Limiting Global Warming to 1.5°C, p.2

\textsuperscript{59} Ibid.

\textsuperscript{60} Ibidem.

\textsuperscript{61} Parliamentary Office of Science and Technology, Postnote 549: Greenhouse Gas Removal, (February 2017), p.1

\textsuperscript{62} Ibid., p.2

\textsuperscript{63} CCC, *Net Zero: The UK’s contribution to stopping global warming*, (May 2019), p.11
science and fully meet the UK’s obligations under the Paris Agreement.” The report acknowledged that this would require that “policy is ramped up significantly,” but set out that the benefits of this would include improved quality of life, lower risks from climate change and industrial opportunities. It detailed the potential advantages to the UK from taking early action:

With appropriate policy and support there could be an industrial boost to the UK from being one of the early movers in some key sectors (e.g. specialised supporting services like finance and engineering for low-carbon technologies, carbon capture and storage), with potential benefits for exports, productivity and employment. The shift in resources from imported fossil fuels to UK investment could also stimulate further economic activity.

29. The report notes that the UK has “taken a leading role in the growth of green finance internationally,” highlighting the creation of the UK’s Green Investment Bank (the first of its kind) in 2012, and the UK Government’s endorsement of the recommendations from the Task Force on Climate Related Financial Disclosures (TCFD) in 2017. However, the report specifically highlights UK Export Finance as an area that “needs further progress.” It states that in the UK:

Export finance is not aligned with climate goals, and often supports high-carbon investments.

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64 Ibidem.
65 Ibid., p.8, p.11, p.30
66 Ibid., p.30
67 Ibid., p.118
68 Ibidem.
2  UK Export Finance’s support for the energy industry

30. UK Export Finance (UKEF) supports businesses through the provision of insurances, guarantees and loans. It reports the scale of this support in terms of maximum liability on all new business, which represents the maximum amount that UKEF would pay in the event of a successful claim.\textsuperscript{69}

The scale of UKEF’s support for the energy industry

31. Between 2013/14 and 2017/18, 21% of UKEF’s support (£2.6 billion) was for the energy sector.\textsuperscript{70}

Table 1: UKEF’s support to the energy sector

<table>
<thead>
<tr>
<th>Export Type</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
<th>Total</th>
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<tbody>
<tr>
<td>Total Support by UKEF</td>
<td>2,272</td>
<td>2,730</td>
<td>1,793</td>
<td>2,966</td>
<td>2,530</td>
<td>12,291</td>
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<td>Total support to energy sector</td>
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<td>466</td>
<td>606</td>
<td>919</td>
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<td>the energy sector</td>
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<td>34%</td>
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<td>10%</td>
<td>21%</td>
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<td>Fossil Fuels</td>
<td>383</td>
<td>437</td>
<td>585</td>
<td>777</td>
<td>178</td>
<td>2,360</td>
</tr>
<tr>
<td>High-Income Countries: Fossil Fuels</td>
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<td>26</td>
<td>14</td>
<td>117</td>
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</tr>
<tr>
<td>Low- or Middle-Income Countries:</td>
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<td>&lt;0.5</td>
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<td>1</td>
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<td>Renewables</td>
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<tr>
<td>High-Income Countries: Renewables</td>
<td>&lt;0.5</td>
<td>3</td>
<td>7</td>
<td>25</td>
<td>68</td>
<td>103</td>
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</tbody>
</table>

Source: Based on breakdown of UKEF support by Financial Year in written evidence by UKEF

32. Between 2013/14 and 2017/18, 96% (£2.5 billion) of UKEF’s support to the energy sector went to fossil fuel exports, and just 4% (£104 million) to support renewable energy exports.\textsuperscript{71} High-income countries received £272 million in energy support, while low- and middle-income countries received £2,361 million.\textsuperscript{72} The largest proportion of UKEF’s support to energy sector exports went to fossil fuel projects in low- or middle-income countries (£2.4 billion or 90% of total energy support to all countries between 2013/14 and 2017/18).

\textsuperscript{69} The figure shows issued and effective business. It does not include amounts counter-guaranteed or reinsured by another official export credit agency where UKEF was acting as lead ECA on a jointly supported transaction. It does not include businesses supported where the private reinsurance market was subsequently used to offset risk for active portfolio management purposes. It also includes the value of support in the form of direct loans and scheduled interest, which is accounted for on a different basis.

\textsuperscript{70} UK Export Finance (EXF0028)

\textsuperscript{71} UK Export Finance (EXF0028)

\textsuperscript{72} Ibid.
UKEF’s support to exports to high-, medium- and low-income countries

33. UKEF’s support to the energy sector grew between 2013/14 and 2016/17, from £392 million to £919 million, before falling to £250 million in 2017/18. UKEF told Committee staff that it attributes the decline in support to the energy sector in 2017/18 to demand for export finance and the nature of UKEF’s support. It highlighted that a delay in one or two large projects can easily lead to transactions being recorded in one financial year rather than another. Its figures for support in 2018/19 are due to be approved in June 2019.

34. There is a stark and growing difference between the profiles of UKEF’s support for energy-related projects in low- and middle-income countries, compared to high-income countries. While overall support for energy-related projects decreased in 2017/18 in both groups, in high-income countries UKEF has rapidly increased the proportion of its energy support to renewable exports.\(^73\) Renewables made up 96% (£68 million) of UKEF’s energy support to high-income countries in 2017/18, compared to 0%-5% (less than £0.5 million) in 2013/14.\(^74\)\(^75\)

35. By contrast, fossil fuels made up 99.4%, and renewables 0.6%, of UK Export Finance’s energy support to low- and middle-income countries (£178 million and £1 million respectively in 2017/18). This shows little change from UK Export Finance’s longer-term support patterns.

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\(^{73}\) UK Export Finance ([EXF0028](#)).

\(^{74}\) Calculated using figures from UK Export Finance written evidence ([EXF0028](#)).

\(^{75}\) UK Export Finance’s figures stipulate only that renewables support in high-income countries was less than £500,000, whilst support to fossil fuels was £9 million. The 0%-5% range has been calculated using the range £499,999 to less than or equal to £45,000, rounded to the nearest full number.
36. UKEF CEO, Louis Taylor, told the Committee that he attributed UKEF’s high levels of fossil fuel support to low- and medium-income countries to three factors. Firstly, he said that the UK’s industrial capacity in the renewables sector is lower. He explained:

    We just do not have the capacity to build wind turbines... We cannot support UK content where there is no UK content to support.
37. Secondly, he emphasised that UKEF exists to “fill the gaps in private sector provision of finance, not to compete with the private sector.” This means that:

For renewable energy projects there is a considerable amount of liquidity available for those projects, so the need for UK Export Finance is reduced, to an extent.

38. Finally, he argued that UKEF’s support for oil and gas should be seen in the context of a transition from fossil fuels which generate high carbon emissions (such as coal and diesel generators) to lower carbon fossil fuels, such as gas. He also emphasised that UKEF’s support represents just 0.02% of global oil and gas investment in any one year.

Criticisms of UKEF’s support for fossil fuels

39. UKEF’s support for fossil fuel projects was widely criticised by witnesses to this inquiry and in written evidence. Below are some of the main themes.

Out of step with the UK’s climate goals

40. Many contributors, such as E3G, criticised UKEF’s support for overseas energy investment in fossil fuels for being inconsistent with the UK’s international climate commitments:

Despite the UK’s signing of the Paris Agreement, the majority of UK Export Finance’s overseas energy investment supports fossil fuels. This is leading to an increase in greenhouse gas emissions, carbon lock-in and the risk of stranded assets. Such support severely undermines the UK’s domestic and international climate action as well as its commitment to the UN’s Paris Agreement on Climate Change.

41. Global Witness argued that

Funding fossil fuels also undermines our International Development goals. The £4.8 billion total UKEF support for fossil fuel projects between 2010–16 is nearly equal to the UK’s total spend on its International Climate Fund for a similar period, 2011–17, which came to £4.9 billion.

This view was supported by The Elders (an independent group of global leaders who work for “peace, justice and human rights”), and E3G.

42. The Elders called on the UK Government to use this Committee’s inquiry as an opportunity to “demonstrate a clear shift in policy away from fossil fuel use” and to

Recalibrate its export finance policy so it is fully consistent with international climate trends and obligations as a G20 member state.
Former UN Secretary-General, Ban Ki-moon, wrote that UKEF’s policy needs “recalibration” to meet international climate trends and obligations and argued:

“The best way for any country to avoid climate complacency is to develop robust, holistic and people-centred policies across government, so short-term trade or financial priorities do not trump the wider imperative of cutting global emissions.”\(^{85}\)

43. On the other hand, Baroness Fairhead claimed that UKEF’s activities are in keeping with the Paris Agreement. She said that UKEF had conducted a review because of the Paris Agreement which led to UKEF’s agreement to support the Powering Past Coal Alliance (PPCA), which the UK founded jointly with the Government of Canada in 2017.\(^{86}\) The PPCA commits members to “the rapid phase-out of unabated coal power”, as well as to “supporting clean power generation through their policies … and investments, and to restricting financing for unabated coal power generation.”\(^{87}\) Baroness Fairhead emphasised that beyond the PPCA commitments, “we did not feel that there was any immediate change needed in our policy.”\(^{88}\) She explained that:

Even under the IPCC report there is an acknowledgement that further investment will be required in oil and gas, as we manage the transition.\(^{89}\)

44. However, while there was generally a consensus that there would be some role for gas during transition to renewables, there was significant disagreement over the extent and timing of support for gas projects. A confidential submission argued that a full transition towards clean energy growth “will take decades, not single digit years,” and would require further UKEF support for the oil and gas industry during this time.\(^{90}\) By contrast, the UK Student Climate Network argue that “all subsidies, investments, credit lines and material support for fossil fuel exploration, extraction and development must cease immediately.”\(^{91}\)

45. Analysis by Oil Change International found that the remaining global carbon budget to limit warming to 1.5°C would be more than used up by the oil, gas and coal fields already in existence, without investment in establishing more.\(^{92}\) Oil Change International compared data from its 2016 The Sky’s the Limit report to the IPCC projections for possible fossil fuel use whilst still limiting global heating to 1.5°C (with a 50% change) and 2°C (with a 66% chance). It concluded that:

The oil, gas and coal to be extracted from already-developed fields and mines would take the world well past the 1.5 degrees specified in the Paris goals, and almost to 2 degrees of warming. Even if coal were phased out overnight, the oil and gas alone would take the world beyond 1.5 degrees.\(^{93}\)

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86 Baroness Fairhead, Q248
87 Powering Past Coal Alliance, Declaration, (November 2017), [date accessed 14/05/2019]
88 Ibidem.
89 Ibid., Q267
90 Confidential written evidence
91 UK Student Climate Network (EXF0036)
92 Oil Change International (EXF0017)
93 Ibid.
46. Much of the evidence referred to the tension between the UK’s domestic and international approaches. Carbon Tracker Initiative raised concerns that, comparing UKEF’s behaviour to the UK’s ambitions through the Clean Growth Strategy and Sustainable Development Goals:

> The UK is in our view perhaps an extreme example of how an anomaly between national and international approaches can manifest itself.\(^94\)

47. Navraj Ghaleigh, Senior lecturer in climate law at the University of Edinburgh, supported this view, saying “We are making enormous efforts to decarbonise domestically … but making significant contributions to the problem through our exporting activities. That is a classic case of policy misalignment.”\(^95\) He also warned that this needs to be realigned quickly to meet the UK’s climate goals:

> If we are going to hit 1.5° or anything close to it, all the pathways say that we need very rapid decarbonisation, demand-side mitigation, electrification and emissions reductions now—meaning the decade from 2020 to 2030—as well as carbon dioxide removals. If that is correct, and if it is what we want to do, the current pattern of UK export finance is simply flatly inconsistent with it.\(^96\)

48. Some, such as the Elders, have argued that this discrepancy between domestic and international policy is a form of exploitation:

> It stirs painful memories of past exploitative behaviour to see the UK and other rich, industrialised countries proclaim their good intentions and act

\(^94\) Carbon Tracker Initiative (EXF0010)
\(^95\) Navraj Ghaleigh, Q20
\(^96\) Navraj Ghaleigh, Q10
in a progressive way at home, whilst effectively exporting their emissions to poorer foreign countries and leaving them to pay the price socially and environmentally.  

49. This was backed up by the Abibiman Foundation, who appealed for UKEF to “stop supporting fossil fuel projects in Ghana” and instead invest in “renewable energy to promote a just energy transition.”  

98 Moreover, Baroness Brown of Cambridge told the BEIS Committee that the UK has a moral obligation to move further and faster in responding to climate change: 

We are a wealthy country because of the industrial revolution and what has happened since then. We have benefitted from the creation of the problem over hundreds of years. Other countries such as China have not. On a per capita basis, we are responsible for the second largest contribution to historic emissions, which are causing the climate change we are seeing now. We therefore have an obligation to go faster than developing countries in addressing that problem.  

99 By contrast, Baroness Fairhead emphasised that UKEF’s support for the offshore oil and gas field in Ghana is helping the country to lower its emissions: 

[It] will help to reduce CO₂ emissions because the gas that is piped ashore and burned in power stations will obviate the need for hundreds of diesel generators that will pollute far more than the gas. This is genuinely a transition story.  

100  

50. We will explore the role of UKEF’s support in energy transition in more detail in Chapter 3.

**UKEF’s symbolic role**

52. The total energy support provided by UKEF between 2013/14 and 2017/18 was £2.6 billion. Louis Taylor, CEO of UKEF, emphasised that “UKEF is only 0.02% of global oil and gas investment in any one year.”  

101 However, this figure minimises the significant role that UKEF plays in enabling fossil fuel projects through removing risk and sending investor signals to the market. Greg Muttitt, Research Director at Oil Change International told the Committee that UKEF plays an important role in “de-risking investments” as its support means that: 

Other investors and companies … get involved in projects that would not otherwise in the absence of UKEF support, and so it has a role in unlocking much larger amounts of investment and capital.  

102  

53. E3G highlight that, in addition to de-risking projects, UKEF’s support “sends a clear and important signal to the wider investment market. Investors and companies will follow
these signals and support fossil fuel projects they otherwise may not have considered.”

UKEF’s disproportionate impact is backed up by UKEF’s own evidence. UKEF wrote that many UK businesses “would not have been able to go ahead with their exports or supplies for exports” without UKEF’s support. A confidential submission to the inquiry stated that UKEF has been “one of the bright lights of positivity” after “four very difficult years in the UK energy sector, especially for oil & gas.”

**Carbon lock-in**

54. The Overseas Development Institute (ODI) argues that by continuing to support fossil fuel-based developments, UKEF contributes to “carbon lock-in that commits countries to polluting energy systems and increases the risk of stranded assets.” This view is supported by E3G and Ban Ki-moon. Professor Anderson explained the consequences:

It is completely incompatible to be investing in fossil fuels elsewhere in the world if we are going to meet our Paris commitments. We need to be very clear about this: when we invest in fossil fuels, we are locking in high-carbon infrastructure for decades to come, sometimes in poorer countries, along with all the other accompanying air pollution issues.

55. Written evidence by Tearfund pointed out that “The Prime Minister has recognised that ‘clean energy is already an easier, cheaper and safer option’ and ‘by adopting 21st-century methods such as solar and wind power and energy storage, developing economies can today leapfrog the dirty technologies of the past.’” Tearfund argued that “focusing investment on clean energy sources will decouple economic growth from increased GHGs, enabling countries to leapfrog to a low-carbon economy.” Investment in fossil fuel infrastructure puts this at risk.

**Stranded assets**

56. Global Witness, E3G, Both Ends, ODI and WWF all highlight that UKEF’s support for fossil fuels, particularly in developing countries, may contribute to stranded assets. The Smith School of Enterprise and Environment at the University of Oxford defines stranded assets as:

57. “Assets that have suffered from unanticipated or premature write-downs, devaluations or conversion to liabilities. They can be caused by a range of environment-related risks

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103 E3G (EXF0034)
104 UK Export Finance (EXF0028)
105 Confidential written evidence
106 Overseas Development Institute (EXF0004)
107 E3G (EXF0034); Ban Ki-moon, “UK must stop investing in fossil fuels in developing countries”, *The Guardian*, (2019), [date accessed: 13/05/2019]
108 Professor Kevin Anderson, Q10
109 Written evidence by Tearfund (EXF0015), citing Theresa May, “It’s Britain’s duty to help nations hit by climate change”, *The Guardian*, (2017), [date accessed: 13/05/2019]
110 Tearfund (EXF0015)
111 Global Witness (EXF0033); E3G (EXF0034); Both ENDS (EXF0005); Overseas Development Institute (EXF0004); WWF (EXF0007)
and these risks are poorly understood and regularly mispriced, which has resulted in a significant over-exposure to environmentally unsustainable assets throughout our financial and economic systems."\textsuperscript{112}

58. Research by Alexander Pfeiffer et al, published in May 2018, found that even if the entire current pipeline of all power generation plants was cancelled, about 20\% of current in-use global capacity would need to be stranded (that is, “prematurely decommissioned, underutilized, or subject to costly retrofitting”) to meet the 1.5°C–2°C warming goals.\textsuperscript{113} ODI explains how this can lead to an increased risk of stranded assets, including among UKEF’s projects:

If new fields and mines are developed … this can do one of only two things: either they push the world beyond climate limits, or they require a greater amount of existing infrastructure to be closed early, at a cost of economic and social disruption: stranded capital assets and lost jobs.\textsuperscript{114}

59. Ben Caldecott told the Committee that he was “very concerned” about the risk of stranded assets from fossil fuel energy projects overseas.\textsuperscript{115} He argued that:

UK Export Finance is exposed to the risk of stranded assets through, of course, the loans and guarantees it is providing. It is also having an impact on the environment through those loans and guarantees, and through the activities that it is supporting.\textsuperscript{116}

60. UKEF told us that while they were aware that some fossil fuel energy projects, such as oil refineries, “may fall into the category of assets that are considered potential stranded assets in the future” they were “comfortable” with the fact that they “do not really calculate [their risk] in terms of climate risk.”\textsuperscript{117} While the projects UKEF supports may be at risk of stranded assets, as they have “very long life spans, up to 40 years,” Louis Taylor told the Committee that UKEF’s risk exposure, in contrast, was less:

Our lending to those projects can last up to 17 or 18 years, depending on the length of time of their construction period.\textsuperscript{118}

\textbf{Subsidies}

61. In 2016, the UK agreed, as part of the G7, to phase out inefficient subsidies for fossil fuels by 2025.\textsuperscript{119} As a member of the G20, the UK has repeated its commitment to phase out fossil fuel subsidies every year since 2009.\textsuperscript{120} Under the WTO Agreement on Subsidies and Countervailing Measures, WTO members are prevented from providing certain

\begin{itemize}
\item \textsuperscript{112} Smith School of Enterprise and the Environment, \textit{Stranded Assets Programme: Discussion paper}, (2014), p.2
\item \textsuperscript{114} Ibid.
\item \textsuperscript{115} Ben Caldecott, Q67
\item \textsuperscript{116} Ben Caldecott, Q69
\item \textsuperscript{117} Louis Taylor, Qq275–276
\item \textsuperscript{118} Louis Taylor, Q276
\item \textsuperscript{119} G7, \textit{G7 Ise-Shima Leader’s Declaration}, (May 2016)
\item \textsuperscript{120} G20, \textit{G20 Leader’s Statement: The Pittsburgh Summit}, (September 2009); Overseas Development Institute (EXF0004)
\end{itemize}
“subsidies” and includes in its examples of prohibited subsidies, export credit programmes priced at premium rates which are inadequate to cover their long-term operating costs and losses.121 UKEF explained:

The net result of [these] requirements, and those of the Treasury, is that UKEF is precluded from providing subsidies for exports, whether they are destined for projects involving fossil fuels, renewables or otherwise.122

62. In evidence to the inquiry, Neil McCulloch summarised the prevailing definitions of government subsidies as:

Price gap method: which considers the gap between the price that fuel/energy is sold and the cost of production. This is good at capturing consumption subsidies (e.g. where the government sets the price below the market price), but not so good at capturing production subsidies (e.g. tax concessions given to energy companies) [or]

Inventory method: this approach compiles an inventory of all forms of government support e.g. through the budget or through tax reliefs and exemptions. It captures production subsidies better than the price-gap method but misses consumption subsidies that are not included in the budget.123

63. UKEF focuses on the first of these approaches, defining subsidies as “a government action that lowers the pre-tax price to consumers below international market levels.”124 Since part of UKEF’s remit is to conduct its business at no net cost to the taxpayer, it asserts accordingly that they do not provide subsidies. The UKEF business model involves a fee for the exporter and, further, the premiums charged are set by the OECD and calculated to reflect commercial rates. On that basis, UKEF claim their customers are paying a cost similar to what they would in the private sector and so are likely to charge a price that reflects full market costs.125

64. However, this approach has received significant criticism. Christian Aid claims that “the OECD, IMF, International Energy Agency, World Bank and G20 all agree that the UK does subsidise fossil fuels under any widely accepted international definition of subsidy.”126 Similarly, Neil McCulloch told the Committee:

The UK Government argue that they have no subsidies for fossil fuels. That is clearly false. It is very easy for them to hit a target of having no subsidies if you define yourself as having no subsidies. The reality is the OECD—which compiles an inventory on fossil fuel subsidies—makes it clear that there are substantial subsidies for fossil fuels, part of which is from UK Export Finance.

121 World Trade Organisation, Agreement on Subsidies and Countervailing Measures, (1994)
122 UK Export Finance (EXF0009)
123 Neil McCulloch (EXF0008)
124 UK Export Finance (EXF0009)
125 Ibid.
126 Christian Aid (EXF0016)
What we are talking about here is transparency. There is an issue as to whether or not the UK taxpayer should know how much UK Export Finance currently supports fossil fuels ... we should at least know how much that subsidy currently is.127

65. In comparison E3G highlighted that the World Bank has committed to ending all finance to upstream oil and gas investment after 2019, other than in exceptional circumstances.128

**Measuring subsidies**

66. In 2018, the OECD published its Companion to the Inventory of Support Measures for Fossil Fuels 2018. Using a credit rating-based approach, the report offers a practical strategy on how to “quantify the support element of government credit assistance (i.e. preferential loans and loan guarantees) to fossil-fuel-related projects.”129 The report explains:

Government credit assistance can confer substantial benefits to carbon-intensive infrastructure, thus hampering the transition towards a low-carbon world, while inducing revenue losses for Governments. Quantifying the support elements of such measures therefore enhances transparency on the use of public resources.130

67. Neil McCulloch argues that this report is significant for transparency in the case of UKEF:

Now we have a methodology that has been adopted by the OECD there is no reason whatsoever for all export credit agencies, including UKEF, to support that and to report on the findings.131

**Peer review mechanisms**

68. An alternative to eradicating fossil fuel subsidies that some countries have adopted is the concept of subsidy peer review. Oil Change International explains that the peer review process:

Aims to provide a platform for countries to provide feedback on each other’s subsidy estimates and progress on phase-out. Although the peer review process may not produce a standardised method and format for fossil fuel subsidy tracking, it could help to improve wider transparency on fossil fuel subsidies and accountability for their phase-out.132

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127 Neil McCulloch, O87
128 E3G (EXF0021)
130 Ibidem.
131 Neil McCulloch, O87
132 Oil Change International (EXF0017)
69. The OECD report identified “more than 1,000 policies conferring a benefit to the use or production of fossil fuels in 43 countries.”\(^{133}\) It attributes a majority of these to policies which were “introduced decades ago in the form of tax expenditures, which are not revised with the same regularity as budgetary transfers.”\(^{134}\)

70. The report notes that:

> The four peer reviews undertaken to date, by the People’s Republic of China, Germany, Mexico, and the United States, have identified several fossil fuel subsidies as inefficient, and have described plans to phase them out over the short or medium term. These peer reviews highlight the importance of transparency in this domain. They have proven to be instrumental for learning and sharing best practices on estimating support, assessing its effectiveness on meeting public-policy objectives, and on sequencing reform. They have also revealed existing definitional gaps, both among and within countries (i.e. across ministries), particularly over what constitutes a ‘fossil fuel subsidy’ and under what conditions a given subsidy can be considered ‘efficient.’\(^{135}\)

71. The report also highlights work by countries such as India, Indonesia and Mexico to reform prominent fuel pricing policies that used to support fuel consumption.\(^{136}\) It argues that “phasing out fossil fuel support results in a dual benefit of addressing climate policy objectives to reduce CO\(_2\) emissions and local pollution, and raising public revenues.”\(^{137}\)

**The UK’s climate leadership**

72. In December 2017 Prime Minister Theresa May said:

> There is a clear moral imperative for developed economies such as the UK to help those around the world who stand to lose most from the consequences of manmade climate change. But by putting the UK at the forefront of efforts to cut carbon emissions and develop clean energy, we can also make the most of new economic opportunities.\(^{138}\)

73. In its 2018 25 year Environment Plan, the UK Government said that it “has a role in protecting and improving the environment both at home and abroad” promised to “show leadership” on climate change.\(^{139}\) The UK Government has signed up to repeated pledges by the G20 and G7 to phase out fossil fuel subsidies, and was one of the first countries to commit to ending unabated coal power generation by 2025 as part of the Powering Past Coal Alliance.\(^{140}\)

74. The UK’s Clean Growth Strategy promises:

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\(^{133}\) OECD, OECD Companion to the Inventory of Support Measures for Fossil Fuels 2018, p.3  
\(^{134}\) Ibidem.  
\(^{135}\) Ibid., p.9  
\(^{136}\) Ibidem.  
\(^{137}\) Ibidem.  
\(^{138}\) Theresa May, “It’s Britain’s duty to help nations hit by climate change,” The Guardian, 12 December 2017 [accessed 20 January 2019]  
\(^{139}\) HM Government, A Green Future: Our 25 Year Plan to Improve the Environment, 2018, p.9  
\(^{140}\) Powering Past Coal Alliance, Climate Change Minister Claire Perry launches Powering Past Coal Alliance at COP23, 16 November 2017 [accessed 30 January 2019]
To maximise the domestic and international opportunities for the UK, we will strengthen our support for businesses as part of the transition to the low carbon economy. We have added billions of pounds in potential support for UK exporters, doubling the capacity of UK Export Finance and increasing available cover for individual markets by up to 100 per cent, and will dedicate resources within the Department for International Trade to promote investment into the UK renewable energy landscape, develop this supply chain further and support UK exports.\footnote{HM Government, The Clean Growth Strategy: Leading the way to a low carbon future, October 2017, p.29}

75. However, Both ENDS have said that “the scale of UKEF support for fossil fuel-related transactions clearly does not match British leadership in international efforts to combat climate change,” and CAFOD have described UKEF as the “‘elephant in the room’ undermining UK climate and development leadership.”\footnote{Both ENDS (EXF0005), Catholic Agency for Overseas Development (CAFOD) (EXF0002)}

76. Although UK Export Finance’s (UKEF’s) support to UK businesses in the energy sector is demand-led and makes up just 0.02% of global oil and gas investment, UKEF’s support “de-risks investments” and “sends a clear signal” to the wider investment market, attracting further finance to the projects which it chooses to support. Changes to UKEF’s climate-related practices would have significant symbolic and real-world value as evidence of the UK’s leadership on tackling climate change. UKEF have already shown some willingness to address climate concerns by phasing out coal support (through the Powering Past Coal Alliance), following consultation, after the 2015 Paris Agreement.

77. UKEF’s support for fossil fuel energy projects is unacceptably high, particularly in low- and middle-income countries. UKEF gave £2.6 billion to support the energy sector between 2013/14 and 2017/18. Of this, 90% (£2.4 billion) went to fossil fuel projects in low- and middle-income countries. While there has been an increase in the proportion of support given to renewables projects in high-income countries, this is not reflected in support to low- and middle-income countries. In 2017/18, renewables made up 96% of UKEF’s energy support to high income countries, compared to just 0.6% of energy support to low- and middle-income countries. Low- and middle-income countries are due to see the greatest increase in energy demand over the coming years. Supporting fossil fuel energy infrastructure in these areas risks stranded assets or “locking in” reliance on fossil fuel energy production for decades to come.

78. A small number of UKEF’s projects help the transition from high-emission fossil fuels to lower-emission fossil fuels, such as oil and gas. However, the scale of UKEF’s contributions to fossil fuel projects, particularly in low- and middle-income countries, provides an adverse incentive to the energy industry, expanding an international fossil fuel market at a time when Parliament has announced a climate emergency and when innovation should be focused on low-carbon energy and energy transition.

79. In line with recommendations by the IPCC and the CCC, and in keeping with the UK’s commitments under the Paris Agreement, the UK Government should set out how UKEF will work towards net-zero emissions by 2050. Making this commitment would show climate leadership and a willingness to align the UK’s domestic and international approaches to job creation and climate change.
80. The UK should leverage its position among other OECD Export Credit Agencies to encourage them to follow UKEF’s example in aligning its work with net zero emissions by 2050, revisiting their energy support strategy in light of the IPCC’s report, and introducing a strategy to end support to new fossil fuel energy projects by 2021. UKEF should seek multilateral agreement amongst OECD ECAs to join UKEF in making finance flows consistent with a pathway consistent with the Paris Agreement and net zero emissions by 2050.

81. UKEF prioritise a “price gap” approach to measuring subsidies and argue that UKEF do not provide fossil fuel subsidies because they operate at no net cost to the taxpayer. However, critics have argued that this ignores the “inventory method” of support which captures production subsidies. The OECD’s 2018 Companion to the Inventory of Support Measures for Fossil Fuels provides a methodology for quantifying the support element of government credit assistance, to increase the transparency of the “substantial benefits” of government credit assistance to carbon-intensive infrastructure.

82. In addition to considering whether UKEF subsidises fossil fuels under the “price gap” method, UKEF should publish a measure of its inventory support for fossil fuels using the OECD method. UKEF should volunteer to peer-review its fossil fuel support mechanisms, which has been effective in identifying opportunities for increased efficiency in China, Germany, Mexico and the United States.
3 Energy transition

83. Energy transition is the process of moving energy production and supply from fossil fuels (coal, oil and gas) to low-carbon alternatives.\textsuperscript{143}

84. The Committee received conflicting evidence on whether UKEF’s activities are supporting or hindering energy transition. For example, the Aberdeen and Grampian Chamber of Commerce told us that:

> It’s clear that firms are transitioning, but that this transition is still in relative infancy, which requires ongoing support. UKEF’s continued support of exports in their current primary energy market will ensure that firms can sustainably direct resources towards an all energy, low carbon economy, while helping to meet the world’s energy needs in the immediate term.\textsuperscript{144}

85. This view is supported by UKEF and Oil and Gas UK.\textsuperscript{145}

86. However, ClientEarth have argued that UKEF’s support is delaying the transition to low-carbon energy by supporting fossil fuel projects that would not go ahead without UKEF’s support:

> By improving the overall economic conditions of the UK fossil fuel sector, UKEF support serves to undermine the UK’s own transition to a low-carbon economy at a rate that is in line with its obligations under the Paris Agreement.\textsuperscript{146}

87. Similar views were given by Both ENDS, The Elders, E3G, CAFOD, Tearfund, Global Witness, Oil Change International, the Stockholm Environment Institute, Carbon Tracker Initiative, ODI, the Abibiman Foundation and the UK Student Climate Network.

88. This chapter will set out some of the global pathways to limiting global heating to 1.5°C, and examine UKEF’s energy support in the context of the current direction of energy transition, achieving a just and sustainable transition, the timing of transition, and an international comparison to the behaviours of other Export Credit Agencies (ECAs).

Global pathways to 1.5°C warming

89. The Intergovernmental Panel on Climate Change’s Special Report on global warming of 1.5°C estimated that human activities have already caused 1.0°C of warming above pre-industrial levels.\textsuperscript{147} It found that global heating was likely to reach 1.5°C between 2030 and 2052 if it continued to increase at the current rate.\textsuperscript{148} The report examined emission pathways and system transitions consistent with 1.5°C global heating, and found that:

\begin{itemize}
  \item \textsuperscript{143} Carbon Tracker Initiative (EXF0010)
  \item \textsuperscript{144} Aberdeen and Grampian Chamber of Commerce (EXF0025)
  \item \textsuperscript{145} UK Export Finance (EXF0009), Oil & Gas UK (EXF0013)
  \item \textsuperscript{146} ClientEarth (EXF0030)
  \item \textsuperscript{147} IPCC, Global Warming of 1.5°C: Summary for Policymakers, (2018), p.6
  \item \textsuperscript{148} Ibidem.
\end{itemize}
In model pathways with no or limited overshoot of 1.5°C, global net anthropogenic [man-made] CO₂ emissions decline by about 45% from 2010 levels by 2030 … reaching net zero around 2050.¹⁴⁹

90. The report noted that reducing CO₂ emissions to limit global heating to 1.5°C could be achieved through “different portfolios of mitigation measures, striking different balances between lowering energy and resource intensity, rate of decarbonization, and the reliance on carbon dioxide removal.”¹⁵⁰ The figure below shows four of these potential scenarios.
Figure 4: IPCC's breakdown of contributions to global net CO₂ emissions in four illustrative pathways.

Source: IPCC, Global Warming of 1.5°C: Summary for Policymakers. AFOLU = Agriculture, Forestry and Other Land Use. BECCS = Bioenergy with Carbon Capture and Storage.
91. The IPCC note that these approaches “face different implementation challenges and potential synergies and trade-offs with sustainable development.”\(^{151}\) Both Professor Jim Skea and Professor Kevin Anderson cautioned against relying on “heroic assumptions” around the effectiveness of negative emissions technologies, particularly bioenergy with carbon capture and storage (BECCS), and which are built into pathways 2, 3 and 4 above.\(^{152}\) Professor Anderson told the Committee:

> You have to hold the view that technologies that do not exist will work in the future at between one and four times the size of the current fossil fuel industry to remove the carbon dioxide from the atmosphere. The levels assumed in most of the models range from, not uncommonly, 300 billion tonnes—so very approximately 10 times current total global emissions—up to about a trillion tonnes [for pathway 4].\(^{153}\)

92. The IPCC report also warned that:

> Future climate-related risks depend on the rate, peak and duration of warming. In the aggregate, they are larger if global warming exceeds 1.5°C before returning to that level by 2100 than if global warming gradually stabilizes at 1.5°C, especially if the peak temperature is high (e.g., about 2°C) (high confidence). Some impacts may be long-lasting or irreversible, such as the loss of some ecosystems.\(^ {154}\)

93. The IPCC report found that limiting global warming to 1.5°C would require “rapid and far-reaching transitions” in energy systems (amongst others), that were “unprecedented in terms of scale but not necessarily in terms of speed, and imply deep emissions reductions in all sectors, a wide portfolio of mitigation options and a significant upscaling of investments in those options.”\(^ {155}\) The pathways with no or limited overshoot of 1.5°C predict that renewables would need to supply 70–85% of electricity; gas with carbon capture and storage supply approximately 8%, and coal close to 0% by 2050.\(^ {156}\)

**UK Export Finance and energy transition**

94. UKEF have emphasised that their support does have a role in the transition to a low carbon economy.\(^ {157}\) Baroness Fairhead emphasised that the IPCC report says that “there will be a transition required and that for the foreseeable future there will need to be fossil fuels as part of the industry.”\(^ {158}\) She argued that while UKEF would “love to offer more support to renewables, the reality is that we have a private sector market that is perfectly able to support a lot of that.”\(^ {159}\) Guto Davies told the Committee that UKEF’s support for gas will continue to play a role in energy transition:

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151 Professor Jim Skea, Q7 and Q11; and Professor Kevin Anderson, Q10
152 Professor Jim Skea, Q7 and Q11; and Professor Kevin Anderson, Q10
153 Professor Kevin Anderson, Q10
154 IPCC, Global Warming of 1.5°C: Summary for Policymakers, p.7
155 IPCC, Global Warming of 1.5°C: Summary for Policymakers, p.17
156 Ibidem.
157 UK Export Finance (EXF0009)
158 Baroness Fairhead, Q238
159 Ibidem.
I do not think it is in any forecast today that gas will not play some kind of baseload capability within the generation mix moving forward…. It is a transition that cannot happen overnight and there are some economies that do not have the capability to run other fuels in order to generate power.\textsuperscript{160}

95. However, Both ENDS have noted that the size of UKEF’s support for fossil fuels, particularly in developing countries, indicates that UKEF “appear[s] to be a principal impediment to the economic feasibility of an energy transition that effective climate policies are calling for.”\textsuperscript{161} The Overseas Development Institute has claimed that “prolonging the life of outdated infrastructure such as coal mines, coal- and gas-fired power stations, oil refineries and related energy transmission systems that ongoing support for fossil fuel infrastructure, increases the risk of higher transition costs in the future.”\textsuperscript{162} Ban Ki-moon, former UN Secretary-General, has argued that “if the UK takes these necessary steps, it can be at the forefront of the transition to a low-carbon economy.”\textsuperscript{163}

\textbf{Timing of transition}

96. One confidential contribution from the energy sector acknowledged that the oil and gas industry is already in transition towards cleaner energy growth, but states that:

> It takes time to transition fully, whether as an economy, an energy infrastructure, a commercially affordable technology, and in terms of skills and academia, so a reasonable time for transition is required. This will take decades, not single digit years.

> “Meanwhile, the global demand for oil is forecast to grow for the next 15 years, not shrink.”\textsuperscript{164}

97. However, Professor Anderson argued that a business-as-usual approach is not an option:

> [The future] will be radically different from where we are now if we are going to solve climate change, and, if not, it is going to be radically different because of climate change.\textsuperscript{165}

98. Christian Aid argued that in support for exports the UK is “lagging behind” the Swedish ECA, SEK, and also the World Bank Group, which stopped investing in upstream oil or gas in 2019.\textsuperscript{166} Baroness Brown of Cambridge, Deputy Chair of the CCC, told the BEIS committee about the benefits of being a leader rather than a laggard in moving further and faster than other countries to reduce emissions:

> There are also so many benefits for us. There are benefits for our industry. We are going to see the benefits of being early into offshore wind. We can see benefits that is already delivering and the benefits it is increasingly going

\textsuperscript{160} Guto Davies, \textsuperscript{Q174}
\textsuperscript{161} Both ENDS (\textit{EXF0005})
\textsuperscript{162} Overseas Development Institute (\textit{EXF0004})
\textsuperscript{163} Ban Ki-moon, “UK must stop investing in fossil fuels in developing countries”, \textit{The Guardian}, (2019), [date accessed: 13/05/2019]
\textsuperscript{164} Confidential written evidence
\textsuperscript{165} Professor Anderson, oral evidence, \textsuperscript{Q37}
\textsuperscript{166} Christian Aid (\textit{EXF0016})
to be delivering to jobs in our coastal communities. We are also hoping to 
build exports on the basis of that. We will be making again, as we were at 
the time of the industrial revolution, and developing again the technologies 
that the rest of the world wants to buy.\textsuperscript{167}

\textit{A just and sustainable transition}

\textit{Achieving a just and sustainable transition within the UK}

99. Baroness Fairhead emphasised the number of UK jobs that are dependent on the oil 
and gas industry:

\begin{quote}
We have over 300,000 people whose jobs depend on this industry. That is 
already down because of the oil price and the recognition of the climate 
change agenda by 160,000 people.\textsuperscript{168}
\end{quote}

100. Oil & Gas UK,\textsuperscript{169} Aberdeen & Grampian Chamber of Commerce and another 
contributor to the inquiry have argued that the UK’s energy sector needs to continue to 
prosper in its fossil fuels activities to strengthen its ability to diversify into renewables 
and low carbon businesses as the energy transition impacts the UK and rest of the world.\textsuperscript{170} 
Aberdeen & Grampian Chamber of Commerce expressed concerns that:

\begin{quote}
Reducing [UKEF] support could damage the competitiveness of the supply 
chain in our region and across the UK. Failing to secure this supply chain 
won’t just have damaging impacts for our economy, it potentially risks the 
energy transition within the UK too.\textsuperscript{171}
\end{quote}

Notably, businesses supported by UKEF do not have to be UK-based companies. UKEF’s 
policy is that it will support projects that will procure a minimum of 20% of content from 
the UK supply chain.\textsuperscript{172}

Witnesses and scientific evidence show that jobs and energy opportunities are opening up 
in the low-carbon and renewables sector. As highlighted above, these are most available 
to those countries whose industries are able to adapt quickly. UK Clean Growth Strategy 
notes that the UK’s low carbon economy already supports over 430,000 jobs directly 
and through supply chains, and attributes the growth in high value jobs, industries and 
companies to technological innovation and investment.\textsuperscript{173} The CCC report gives the 
example of the Government’s Offshore Wind Sector Deal, which is set to increase jobs 
in the offshore wind industry alone from 7,200 in 2019 to 27,000 in 2030, “much of this 
relating to growth in manufacturing and exports.”\textsuperscript{174}

\begin{flushright}
\footnotesize
\textsuperscript{167} Baroness Brown of Cambridge, Oral evidence to the Business, Energy and Industrial Strategy Committee, \textit{Clean 
Growth Strategy and International Climate Change Targets}, Q220  
\textsuperscript{168} Baroness Fairhead, Q239  
\textsuperscript{169} Oil & Gas UK (EXF0013) 4  
\textsuperscript{170} Oil & Gas UK (EXF0013), Aberdeen and Grampian Chamber of Commerce (EXF0025), and confidential written 
evidence  
\textsuperscript{171} Aberdeen and Grampian Chamber of Commerce (EXF0025)  
\textsuperscript{172} Louis Taylor, Qq216–217  
\textsuperscript{173} HM Government, \textit{The Clean Growth Strategy: Leading the way to a low carbon future}, (October 2017, amended 
April 2018), p.25  
\end{flushright}
101. Research from Platform, Oil Change International and Friends of the Earth Scotland has found that “given the right policies”, job creation in clean energy industries “could exceed oil and gas jobs more than threefold”, between now and 2050.175

102. Similarly, Professor Skea emphasised the importance of ambitious investing in securing a green energy transformation:

   The key point within the different pathways and different levels of ambition is the more ambitious you are, the less you invest in fossil fuel extraction and, say, coal-fired power stations, and the more you need to invest in renewable energy, especially wind and solar, and demand-side measures—so improving energy efficiency. That is a very robust conclusion from the modelling. All the models agree on that.176

**Achieving a just and sustainable transition internationally**

103. UK Export Finance claims to be supporting transition internationally, by facilitating gas energy projects, which have lower emissions profiles than other fossil fuels. Louis Taylor highlighted a UKEF-supported offshore oil and gas field, which he emphasised “will help reduce CO₂ emissions because the gas that is piped ashore and burned in power stations will obviate the needs for hundreds of diesel generators that will pollute far more than gas.”177

104. However, while this project did reduce emissions compared to diesel generators, it has still received criticism for locking Ghana into higher-emission energy generation than a renewable alternative. The Abibiman Foundation, an NGO dedicated to the promotion of sustainable livelihoods in Ghana, used the same support as an example of UKEF’s failure to invest in “renewable energy to promote a just energy transition” and called on UKEF to “stop supporting fossil fuel projects in Ghana.”178 The Overseas Development Institute claims that this type of investment by UKEF contributes to “carbon lock-in that commits countries to polluting energy systems and increases the risk of stranded assets.”179

105. As the UK continues to transition to low-carbon energy domestically, the Elders have expressed their concerns that the UK’s fossil fuel energy industry may exploit other markets with less stringent restrictions overseas, essentially “exporting their emissions”.

**International comparison**

106. Research by Friends of the Earth, Oil Change International and WWF suggests that UKEF has considerably less low carbon business in its energy portfolio than its G20 ECA peers.180 That analysis showed an average renewable share of 7% in those ECAs’ energy portfolios over 2013 to 2015, compared with 0.3–0.5% for UKEF.181182

176 Professor Jim Skea, Q8
177 Louis Taylor, Q235
178 Abibiman Foundation (EXF0035)
179 Overseas Development Institute (EXF0004)
180 Friends of the Earth, Oil Change International and WWF, Financing the Climate Disaster: How Export Credit Agencies are a Boon for Oil and Gas (October 2017)
181 Ibid.
182 Calculated from written evidence by UK Export Finance (EXF0028)
107. UKEF explain it has identified the low carbon economy “as a priority in its 2017–2020 Business Plan.”\textsuperscript{183} It explains that “Notwithstanding the support available from the private sector, UKEF has taken steps to position itself to support a greater number of renewable energy exports. UKEF has recruited specialists in renewable energy across its business development, underwriting and ESHR teams. UKEF has also engaged with a wide range of trade associations which support the renewable sector in order to increase awareness of the availability of its support to the sector.”\textsuperscript{184}

**Notable emissions policies among other ECAs**

108. Over 190 countries have signed the UN’s Agenda 2030 that contained a commitment to phase-out inefficient fossil fuel subsidies.\textsuperscript{185} No ECA has yet banned all fossil fuel support, but Sweden’s Export Credit Corporation (SEK) appears to have come closest. SEK’s Annual Report and Accounts 2018 report that:

Risk appetite

Lending for coal-fired power is not permitted. In exceptional cases, loans may be offered if they are aimed at environmental improvement measures. Gross lending to fossil fuel operations (coal, oil and gas) should be less than 5 percent of SEK’s total lending.

2018 Outcome

There was no new financing of coal-fired power. Total gross lending to fossil fuel operations is less than 1 percent.\textsuperscript{186}

109. SEK also joined the government’s “Fossil Free Sweden” initiative to “promote the mobilisation of capital for environmental projects to make the country fossil free,” and collaborates with other public agencies to develop competitive financial offerings to the Swedish export industry with a particular focus on sustainable urban development.\textsuperscript{187} This includes for example, exports to the 100 smart cities that are planned to be constructed in India over a 20-year period.\textsuperscript{188}

110. In January 2019, Canada’s ECA, Export Development Canada (EDC), introduced a new Climate Change Policy. The policy commits EDC to measuring, monitoring and disclosing climate-related risks and opportunities, integrating climate change considerations into business decisions, and encouraging partners to do the same.\textsuperscript{189} While this does allow for some continued investment in oil and gas (but not coal opportunities) it represents “a much more systematic and transparent approach to all sectors, including enhanced awareness and tracking of carbon intensity to factor climate change into EDC’s established risk assessment processes.”\textsuperscript{190}

\textsuperscript{183} UK Export Finance (EXF0009)
\textsuperscript{184} Ibid.
\textsuperscript{185} United Nations, Paradise Agreement, (2015), SDG 12.c
\textsuperscript{186} Swedish Export Credit Corporation (SEK), Annual Report 2018, (2018), p.41
\textsuperscript{187} Ibidem.
\textsuperscript{188} Ibidem.
\textsuperscript{189} Export Development Canada (EDC), Export Development Canada releases new Climate Change Policy, January 2019
\textsuperscript{190} EDC, EDC Climate Change Policy Public Response Paper, (January 2019), p4
**Competition between ECAs**

111. While some ECAs, such as Canada and Sweden, have taken more action than other ECAs, written evidence from the oil and gas industry warned against the risks of UKEF acting unilaterally. Oil and Gas UK highlight that UKEF’s support makes a significant contribution to the oil and gas supply chain value, which is “considered vital” by their members, and warn that there is competition to invest in overseas energy projects. For example, they claim that “around a third of African coal-fired plants built between 1996 and 2016 were constructed by Chinese contractors, the majority with Chinese funding,” and that “should UKEF choose not to finance such projects then the global investment market would likely back them regardless.”

112. However, in the context of the UK’s professed global climate leadership, UKEF has been criticised for its support for fossil fuels. Both Ends said that “the scale of UKEF support for fossil fuel-related transactions does not match British leadership in international efforts to combat climate change.” WWF, reporting on ODI research, emphasise that France outperforms the UK on almost all criteria, including ending coal support for coal mining and support for oil and gas and fossil fuel-based power. Written evidence by Anna Markova from Platform highlighted that

> UKEF provides proportionately more support to fossil fuel companies in its energy portfolio than its G20 peers (on average the proportion of renewables projects among energy portfolios of G20 export credit agencies was 7% between 2013–2015).

113. UKEF figures from the same period (2013/14 to 2014/15) shows that renewables made up 0.3–0.5% of UKEF’s energy portfolio (approximately £3–£4 million support for renewables out of £858 million support for all energy projects).

**Opportunities for the UK’s global leadership**

114. Navraj Ghaleigh, Senior Lecturer in Climate Law at the University of Edinburgh, claimed that “the need for new institutions and standards is growing.” In his written evidence for this inquiry, he said:

> The trajectory of the phase out of export credits for fossil fuel-related transactions by ending the support for new fossil fuel extraction should be expanded to transportation and processing infrastructure projects. This would be a logical progression of the 2015 OECD rules limiting export credit support for new coal-fired power plants.
115. Oil Change International has pointed out public finance institutions’ role as “thought leaders”:

They play a central role in supporting and de-risking large fossil fuel infrastructure projects via concessional finance (lending with more favourable terms than on the competitive market). They also send key signals to the broader financial community, making shifting public finance a crucial early step on the road to more broadly aligning financial flows with the Paris Agreement’s aims.199

116. UK Export Finance has already taken a leadership role in some areas that are not related to climate change. The Export Guarantees Advisory Council’s 2016–17 Annual Report “welcomed” UKEF’s work on gender, and “advised that UKEF could take a leadership role in this area amongst ECAs and project sponsors, by emphasising the positive benefits of gender equality and raising gender issues with project sponsors and exporters at early stages of the projects.”200

117. Most of UKEF’s support to UK businesses undermines the UK’s climate commitments. UKEF is a thought leader and plays a key role in de-risking projects, so aligning its support with national and global climate goals is a key step to aligning UK and international financial flows with the Paris agreement. UKEF should commit to only support British businesses in projects that support the UK’s climate goals. Where it is supporting a new energy project, UKEF should show how this supports transition to a low-carbon energy system and aligns with net zero emissions by 2050. Projects supported by UKEF should be able to demonstrate that they have considered a range of potential lower-carbon and renewable options, and that they have selected the option with the lowest feasible emissions. In so doing UKEF should state how its strategy will support a ‘just transition’ to workers in the UK who currently benefit from its support, and how this approach will support decent work in the areas affected.

118. We note that meeting the Paris goals requires most existing fossil fuel reserves to be left in the ground, including gas. We recognise that some fossil fuel use for will still be required, even in a net-zero emissions world with warming limited to 1.5°C. However, numerous scenarios show that 100% renewable energy is feasible and desirable. Fossil fuels are therefore not required and should be phased out as quickly as possible. Substitution between fossil fuels in the short term (for example, from coal to gas) can improve access to energy while reducing carbon emissions flow, but this is not enough to guarantee a limit of 1.5°C warming. Moreover, this approach risks future stranding of assets or locking low- and middle-income countries into dependency on high-carbon pathways at a time of growing energy demand and when renewable alternatives are feasible and inexpensive. In the period until UKEF ends support for new fossil fuels (end of 2021) it should always explain publicly on its website why it has chosen to support a fossil fuel project, why lower-carbon alternatives were not pursued, how the project is contributing to energy transition, and what mitigating actions have been taken.

199 Oil Change International (EXF0017)
200 Export Guarantees Advisory Council (EXF0023)
119. While the UK claims to be a climate leader, other ECAs have taken a stronger stance on phasing out support for fossil fuels, for example, Sweden’s Export Credit Corporation (SEK). The SEK have set a cap of no more than 5% of their lending to go to fossil fuels and in 2018 less than 1% of their support was for fossil fuels. UKEF’s support for fossil fuels is closer to 20%. Moreover, UKEF’s G20 ECA peers gave an average of 7% of support from their energy portfolios to renewables over 2013 to 2015, compared to 0.3–0.5% by UKEF over a similar period. **UKEF should review its energy policy, as it did after the 2015 Paris Agreement, to ensure that it demonstrates climate leadership in responding to current knowledge of climate risks.** We recommend that UKEF’s fossil fuel investment should finish by the end of 2021. At the very least, **UKEF should follow Sweden’s Export Credit Corporation (SEK) in introducing a 5% cap on gross lending to fossil fuel operations (coal oil and gas) as a proportion of total support. As with the UK’s domestic carbon budgets, this cap should progressively reduce in size, and should align with supporting net-zero emissions by 2050.**

120. There are huge benefits to being early movers in the transition to the low-carbon energy. By focusing on transition-related technologies, the UK has the potential to make and develop the technologies that the rest of the world wants to buy. **UKEF returned £500m to the Treasury in the last 5 years.** Noting that key technologies to achieve net-zero emissions are still to be developed fully, we recommend that Treasury ringfences at least 20% of money returned by UKEF from all historic category A (highest risk to environment) projects as well as all projects with forecast emissions of more than 25,000 tonnes of CO₂ equivalent per year, for at least the next ten years. **This money should be invested into renewable energy and low-carbon transition research and development.**
4 Policy, measurement and transparency

UKEF’s environmental policies

121. UKEF’s Environmental, Social and Human Rights (ESHR) policies are guided by its 2009 Policy and Practice on Environmental, Social and Human Rights due diligence and monitoring. These principles set out that UKEF:

- Will take account of factors beyond the purely financial and of relevant government policies in respect of ESHR impacts on individual transactions;
- Will comply with all international agreements which apply to the operations of ECAs. These agreements include the OECD Council Recommendation on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (OECD Common Approaches), which inform the way in which member ECAs should address ESHR due diligence for projects and existing operations they are asked to support and ESHR monitoring after support has been agreed;
- Will comply with the requirements of the Equator Principles, which UKEF has adopted; and
- Will not operate beyond international agreements which apply to ECAs or the Equator Principles. 201

122. The Equator Principles are a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in development projects.

123. UKEF has a team which screens all potential projects that fall within the scope of the OECD Common Approaches and Equator Principles. For those identified as high or medium risk, an ESHR review is undertaken which “examines the … ESHR risks and potential impacts of each project it is asked to support, and monitors the ESHR performance in line with its published ESHR policy and the OECD Common Approaches.” 202 Projects are then categorised as follows:

- Category A: Potential significant adverse ESHR risks and/or impacts; or
- Category B: Less adverse ESHR risks and/or impacts (than Category A); or
- Category C: Minimal or no adverse ESHR risks and/or impacts. 203

201 UKEF, Policy and practice on Environmental, Social and Human Rights due diligence and monitoring, 2009, updated December 2018
202 UK Export Finance (EXF0009)
203 UKEF, Policy and practice.
Box 2: The Equator Principles

The Equator Principles are a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in development projects. UKEF adopted these Principles on 31 March 2016. Out of its entire portfolio in 2017–18 UKEF reported two projects reaching financial closure under the Equator Principles (one Category A infrastructure project and one Category B infrastructure project). In 2016–17 it reported on two Category B infrastructure projects and one Category C “Other” project. Since adopting the Principles, UKEF has not reported on any oil and gas or power projects on the Equator Principles website.

Source: Equator Principles website: Equator Principles and Members & Reporting [date accessed 25/05/2019]

124. Category A projects are subject to an additional Environmental and Social Impact Assessment, to “address the issues in the international standards applied to the project.” This includes calculating the project’s forecasted GHG emissions. For example, the Dhi-Qar Combined Cycle Gas Turbine Power Plant Project in Iraq, involving GE, Enka UK and the Republic of Iraq Ministry of Electricity, the following environmental and social impacts were considered:

Figure 5: Factors considered in the ESIA report for the Dhi-Qar Combined Cycle Gas Turbine Power Plant project in Iraq, September 2018

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<tr>
<th>Baseline</th>
<th>Sub-criteria</th>
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<tr>
<td>Physical</td>
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<td>Hydrology and water quality</td>
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<td>Aquatic flora and fauna</td>
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<td>Protected and key biodiversity areas</td>
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<td>Socio-economic</td>
<td>Data collection techniques</td>
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<td>Housing conditions, infrastructure and services</td>
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<td>Vulnerable groups</td>
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<td>Project awareness</td>
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<td>Cultural heritage</td>
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Source: From the Dhi-Qar project’s Environmental and Social Impact Assessment (ESIA) Report, September 2018

125. In addition, the Export Guarantees Advisory Council (EGAC) reviews at least one project classified as A (“potential significant adverse ESHR risks and/or impacts”) and several classified as category B (“less adverse ESHR risks and/or impacts (than Category

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204 UK Export Finance, The use of ESIA in environmental and social risk management by OECD Export Credit Agencies, (May 2016)
41

A)”) per year.205 The EGAC told the Committee that it “primarily concerns itself with providing advice on the ethical policies applied by UKEF in the conduct of its business related to bribery and corruption, the environmental, social and human rights risks and impacts of the projects which it supports, sustainable lending and transparency (including freedom of information requests).206

126. However, Andrew Wiseman, Chair of the Export Guarantees Advisory Council, told the Committee that the EGAC only look at projects after they have been approved, in accordance with its role as an advisory committee:

We do not look at current projects, we do not have an executive role in deciding whether UKEF should support a particular project.207

Nonetheless, he emphasised that the EGAC could do more to ensure that the data that UKEF is required to report on the impacts of its projects is integrated in to a climate change risk assessment:

It is one of the things that I think would be good for the Advisory Council to look at going forward, as to what UKEF does with the information it gets and the degree to which that is part of its risk assessment procedure.208

127. UKEF emphasised that in pursuing its mission to “ensure that no viable UK export fails for lack of finance or insurance, while operating at no net cost to the taxpayer”, UKEF is necessarily demand driven,” and is not “legally able to discriminate between classes or types of exports.”209 Louis Taylor, UKEF’s CEO, emphasised that, while UKEF must take account of government policy “in the round”, “within the statutory purposes of UKEF there is not a developmental or environmental statement in there at all.”210 Louis Taylor explained that, while, in time “there will be progress on environmental standards,”

We equally have a policy that we do not go beyond the agreements that the UK signed up to that impact export credit agencies in order not to make uncompetitive UK exporters.211

128. Notably, however, UKEF has previously gone beyond this remit in the case of coal. In 2014, the UK government was the first to announce that it would end support for public financing of new coal-fired power plants overseas, except in rare circumstances, and the UK co-founded the Powering Past Coal Alliance with Canada in 2017.212 UKEF has not supported a coal project since 2002.

**Criticisms of UKEF’s environmental policies**

129. UKEF’s statutory remit was criticised by several of our witnesses. Navraj Ghaleigh told the Committee that “the mandate of UK Export Finance is basically a standard

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205 UKEF, Policy and Practice; Export Guarantees Advisory Council (EXF0023)
206 Export Guarantees Advisory Council (EXF0023)
207 Andrew Wiseman, Q118
208 Andrew Wiseman, Q254
209 UK Export Finance (EXF0009)
210 Louis Taylor, Q254
211 Ibid., Q264
212 Gov.uk, *Climate Change Minister Claire Perry launches Powering Past Coal Alliance at COP23*, (November 2017), [accessed 14/05/2019]; Powering Past Coal, *Members: United Kingdom*, [date accessed 14/05/2017]
growth model—the traditional 1980s or 1990s growth model. It has no environmental considerations within it.”

To solve this issue, he suggested a “new policy, which must be considered in the process of the variety of export finance products.”

This would involve:

[Generating] a climate change policy that requires UK Export Finance to measure and monitor the CO₂ intensity of its lending portfolio; assess the risk of its climate-related investments; implement recommendations of the financial stability task force, which go back to what you were saying about stranded assets; and integrate climate change-related considerations into its lending practices.

130. Others said that UKEF’s policy of complying with the minimum required environmental policy was not compatible with the UK government’s claims of climate leadership. Both ENDS said that “the scale of UKEF support for fossil fuel-related transactions does not match British leadership in international efforts to combat climate change.” CAFOD have described UKEF as the “elephant in the room” undermining UK climate and development leadership.

Measurement and transparency

131. Neil McCulloch, Associate Fellow of the Institute of Development Studies and Executive Director of the Policy Practice, told the Committee:

UKEF does have an environmental, social and human rights advisory group. It does look at the environmental, social and human rights aspects of the activities it finances, and yet, rather strangely, it does not measure the climate impact. Given that climate change is probably the biggest environmental threat that the world faces, that seems an odd omission.

It is extremely important that UKEF adopts a climate change policy in which it will make a serious attempt to try to measure what the emissions impact associated with the activities it supports would be.

132. Classification, measurement and reporting of GHG emissions is an evolving topic. The GHG Protocol that underpins GHG accounting principles is becoming more important. In 2016, at least 92% of Fortune 500 companies responding to Carbon Disclosure Project (CDP) used the GHG Protocol directly or indirectly through a programme based on GHG Protocol, and it is “the only internationally accepted method” for a company to account for the full range of its emissions.

Its Corporate Standard classifies a company’s direct and indirect GHG emissions into three “scopes” shown underneath and summarised in the accompanying graphic:

a) Scope 1: “Direct emissions from own or controlled sources”;
b) Scope 2: Indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company; and

c) Scope 3 “All other indirect emissions that occur in a company’s value chain.”

Figure 6: Overview of GHG Protocol scopes and emissions across the value chain

133. The use of modelling rather than measurement—albeit still guided by consistent and robust guidelines—increases as one moves through Scopes 1, 2 and 3 emissions. The resulting GHG calculations can be reported in absolute numbers, usually tonnes of CO₂ equivalent, or intensity terms based on the underlying activity. Examples of intensity measures include kilogrammes of CO₂ equivalent per megajoule of energy, miles travelled, or tonnes of paper, cement or chemicals produced. Scope 1, 2 and 3 emissions are cumulative and, in total, cover the full life-cycle emissions, or “carbon footprint” of the product, asset or portfolio in question. Regulators, investors and pressure groups are increasing demands for broader (i.e. towards life-cycle) and more transparent disclosure on organisations’ GHG emissions.

134. There is a contrast in the relative life-cycle distribution of Scopes 1, 2 and 3 emissions across industrial activities. Two examples are shown in the graphic underneath. Generally, Scope 1 emissions are those within the control of the reporting organisation. Scope 3 emissions rely more on the activities, especially the energy choices, of their supply chain. Regulations based on life-cycle emissions, such as in road transport fuels, implies an organisation will leverage its control over the emissions-related performance of its suppliers—and maybe even customers.

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220 Greenhouse Gas Protocol, Corporate Value Chain (Scope 3) Accounting and Reporting Standard, p. 5
221 Protocols exist to convert the Global Warming Potential (GWP) of all GHGs, from methane to soot, into their CO₂ equivalents using multiples of impact.
222 Although frequently misused, the term should cover all of an activities’ GHG emissions
223 California’s Low Carbon Fuel Standard is an exemplar of this approach, setting a maximum threshold for full life-cycle (from exploration to combustion) fuel emissions based on grams of CO₂ per mile travelled.
135. Ultimately, the detail of Scopes 1, 2 or 3 is irrelevant at the level of global emissions; all GHGs released into the atmosphere have the same climate impact. Granulated scope-based reporting is, however, critical to regulators, investors and observers seeking to understand and/or influence an organisation’s climate-related exposure or mitigation efforts.

136. The G20 Taskforce on Climate-related Financial Disclosures (TCFD) recommendations for voluntary climate-risk reporting has encouraged many organisations to monitor and report disaggregated emissions.\textsuperscript{224} Similarly, the CDP (Carbon Disclosure Project) is a not-for-profit organisation that surveys and reports on industrial companies’ environmental impacts.\textsuperscript{225} That includes ranking climate-related actions and extends to cover Scope 3 emissions.

137. Especially for activities for which Scope 3 emissions account for a significant proportion of their carbon footprint, external interest in transparency around organisations’ Scope 3 reporting has increased. As figure 7 shows, this is especially applicable to fossil fuel industries. The GHG Protocol is the key methodological source for the calculation and reporting of Scope 3 emissions for all activities.

**Calculation and estimation**

138. Given its reliance on algorithm-based calculations rather than formal measurement, it is vital to have Scope 3 emissions estimates guided by a consistent and robust methodologies. Louis Taylor told the Committee that UKEF currently do not report on Scope 3 emissions for two reasons:

First, there is no requirement on us to do that at the moment but, secondly, and I am not an environmental expert, the measurement of the Scope 3 emissions is not such that they have universal acceptance as a measure.\textsuperscript{226}

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\textsuperscript{224} Support for TCFD standards grew from 101 to 580 companies from June 2017 to February 2019, reported in the last TCFD review.

\textsuperscript{225} Fuller details are available at the organisation’s webpage.

\textsuperscript{226} Louis Taylor, Q263
139. While UKEF does not believe that there is one universally accepted measure for Scope 3 emissions, the Greenhouse Gas (GHG) Protocol provides the world’s most widely used GHG accounting standards for companies, including Scope 3.\(^{227}\) The Protocol’s Scope 3 (Corporate Value Chain) standard is summarised as:

A methodology that can be used to account for and report emissions from companies of all sectors, globally. It is accompanied by a suite of user-friendly guidance and tools developed by the GHG Protocol to make Scope 3 accounting more easy and accessible. \(^{228}\) It is the only internationally accepted method for companies to account for these types of value chain emissions. Users of the standard can now account for emissions from 15 categories of scope 3 activities, both upstream and downstream of their operations.\(^{228}\)

140. The standard was established in 2011 as “the only internationally accepted method” for a company to account for the full range of the emissions for which it is responsible.\(^{229}\) This includes those that take place outside the company’s own walls, “from the goods it purchases to the disposal of the product it sells.”\(^{230}\) Detailed technical guidelines, templates and online tutorials are provided to ensure correct and consistent application of the Scope 3 standard. The organisations that subscribe to CDP submissions have followed this reporting convention since its launch. Scope 3 related TCFD recommendations and CDP requirements refer organisations the GHG Protocol standard.

**Prevalence of reporting**

141. Not all organisations currently report on Scope 3 emissions, although there are no official statistics to quantify levels of reporting. Organisations that do report Scope 3 emissions are almost exclusively from the private sector, and tend to be amongst the largest (typically FTSE100 listed) and under most scrutiny on their climate and environmental performance. Growing support for TCFD as well as the climate-related focus of institutional shareholders suggests the reporting of Scope 3 emissions is expanding as external scrutiny intensifies and codifies. One example of this is the series of recent shareholder resolutions demanding the largest oil and gas companies both quantify their Scope 3 emissions and cap them with a target (for example, BP, ExxonMobil, Chevron, Equinor and Shell faced such resolutions in January 2019).\(^{231}\)

142. CDP undertakes extensive surveying of companies to produce its annual ranking and rating of organisation on behalf of its 525 global institutional investors.\(^{232}\) Its rating tables demand Scope 3 emissions data. The growing influence and use of its results have therefore increased the prevalence of Scope 3 reporting.

143. The TCFD mission is to “develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers,

\(^{227}\) Greenhouse Gas Protocol, *Companies and Organizations*, [date accessed 15/05/2019]

\(^{228}\) GHG Protocol, *Corporate Value Chain (Scope 3) Standard*, [date accessed 13/05/2019]

\(^{229}\) Ibid.

\(^{230}\) EnergyPost EU, *Five similar Climate Resolutions for BP, ExxonMobil, Chevron, Equinor, and Shell*, (January 2019), [date accessed 10/05/2019]

\(^{231}\) CPD, *Climate Change*, [date accessed 13/05/2019]
The finance sector is the prime user focus of the TCFD. As of February 2019, almost a third of the 580 TCFD supporters are from the banking and asset management sectors. Those companies’ need to quantify portfolio Scope 3 emissions is based on aggregating data from their diverse shareholdings. Indirectly, again, that increases the extent of scrutiny of listed companies’ Scope 3 emissions.

Fossil fuel companies are amongst the most progressive and transparent, in terms of reporting Scope 3 emissions. That reflects its disproportionate contribution to their overall carbon footprint, growing pressure group interest, increasing demands of ratings agencies (for example, CDP ratings) on this issue and related fund manager data requirements.

In January 2019, Export Development Canada (the Canadian ECA), became the first ECA to formally support the TCFD, publicly declaring an aspiration to “work towards implementing” its recommendations. By inference, that should include reporting its portfolio-level Scope 3 emissions, and is an example of an ECA stepping beyond the requirements of the OECD Common Approaches or Equator Principles that guide ECA’s environmental practices.

UKEF generally does not act beyond the minimum policy requirements to which it considers itself subject. It is unlikely to change to take more environmental factors into account unless there is a change in the policy or legal frameworks governing its mandate. Government should legislate to ensure compliance with the UK’s obligations under the Paris climate agreement and other national and international climate and environmental commitments, including the SDGs.

UKEF already calculates projected emissions for projects that it supports, which it publishes in individual Environmental and Social Impact Assessment documents. However, it does not report on its emissions at a portfolio level, or on each project in a single location. For full transparency, UKEF should report on the forecast and actual emissions of all projects it supports, as well as the portfolio totals, in a single document, so that it is easy to access and compare projects. UKEF should also report the total emissions of its portfolio annually in its Annual Report and Accounts. This should not be challenging, as UKEF already collects this data.

Scope 3 emissions are essential for calculating the full emissions impact of a product, asset or portfolio. Scope 3 emissions are particularly high for fossil fuel-related projects. UKEF claim that there is no universally accepted measure for Scope 3 emissions. However, Scope 3 emissions are already being used in many private sector companies using the GHG Protocol, and the Canadian Export Credit Agency has already expressed its ambition to work towards the G20 Taskforce on Climate-related Financial Disclosure (TCFD) standards (which would include Scope 3 emissions).

UKEF should report the Scope 3 emissions of all projects, and in particular of all fossil fuel-related projects where Scope 3 emissions are particularly high. The GHG Protocol provides a methodology for calculating Scope 3 emissions, and the TCFD recommendations provide a readily-available source of guidance for this work.

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233 Task Force on Climate-Related Financial Disclosures (TCFD), About the Task Force, [date accessed 13/05/2019]
234 Ibid.
235 EDC, Export Development Canada releases new Climate Change Policy, (January 2019), [date accessed: 13/05/2019]
Government considers that existing methodologies for modelling Scope 3 emissions are inadequate, it should support research to develop an agreed model, and should promote this model amongst its ECA peers.

150. **UKEF should commit to follow recommendations by the Task Force on Climate-related Financial Disclosures (TFCD), including to quantify and report its exposure to stranded assets due to climate change and actions to support energy transition.**

151. **UKEF claims that its activities are supporting transition to lower-carbon energy generation by reducing global GHG flow in comparison to other energy options. UKEF would be able to demonstrate that it is supporting a transition to net zero if it reported fully on the GHG emissions profile of its energy projects, as indicated above, alongside the difference between emissions for alternative energy generation methods. This would allow UKEF to show when fossil fuel substitution had led to a less carbon-intensive option and compare the substituted choice to any feasible renewable energy alternatives, whilst still acknowledging the project’s overall contribution to climate change based on GHG stock.**

152. **UKEF should report on the GHG emissions profile of each of its energy projects, including its net emissions and the difference between modelled emissions for alternative energy generation methods. The alternative energy generation methods should include the incumbent generation method (when the UKEF-supported project is substituting a more emissions-intensive energy production method) as well as any feasible renewable energy alternatives. UKEF should also calculate and report the net difference that it makes to emissions in export countries across its portfolio.**

153. **The remit of the Export Guarantees Advisory Council (EGAC) should be expanded to include assessing how UKEF’s activities contribute to the UK’s climate commitments and greenhouse gas net zero targets. The EGAC should report regularly on this progress to the Secretary of State for International Trade.**
Conclusions and recommendations

UK Export Finance's support for the energy industry

1. Although UK Export Finance’s (UKEF’s) support to UK businesses in the energy sector is demand-led and makes up just 0.02% of global oil and gas investment, UKEF’s support “de-risks investments” and “sends a clear signal” to the wider investment market, attracting further finance to the projects which it chooses to support. Changes to UKEF’s climate-related practices would have significant symbolic and real-world value as evidence of the UK’s leadership on tackling climate change. UKEF have already shown some willingness to address climate concerns by phasing out coal support (through the Powering Past Coal Alliance), following consultation, after the 2015 Paris Agreement. (Paragraph 76)

2. UKEF’s support for fossil fuel energy projects is unacceptably high, particularly in low- and middle-income countries. UKEF gave £2.6 billion to support the energy sector between 2013/14 and 2017/18. Of this, 90% (£2.4 billion) went to fossil fuel projects in low- and middle-income countries. While there has been an increase in the proportion of support given to renewables projects in high-income countries, this is not reflected in support to low- and middle-income countries. In 2017/18, renewables made up 96% of UKEF’s energy support to high income countries, compared to just 0.6% of energy support to low- and middle-income countries. Low- and middle-income countries are due to see the greatest increase in energy demand over the coming years. Supporting fossil fuel energy infrastructure in these areas risks stranded assets or “locking in” reliance on fossil fuel energy production for decades to come. (Paragraph 77)

3. A small number of UKEF’s projects help the transition from high-emission fossil fuels to lower-emission fossil fuels, such as oil and gas. However, the scale of UKEF’s contributions to fossil fuel projects, particularly in low- and middle-income countries, provides an adverse incentive to the energy industry, expanding an international fossil fuel market at a time when Parliament has announced a climate emergency and when innovation should be focused on low-carbon energy and energy transition. (Paragraph 78)

4. In line with recommendations by the IPCC and the CCC, and in keeping with the UK’s commitments under the Paris Agreement, the UK Government should set out how UKEF will work towards net-zero emissions by 2050. Making this commitment would show climate leadership and a willingness to align the UK’s domestic and international approaches to job creation and climate change. (Paragraph 79)

5. The UK should leverage its position among other OECD Export Credit Agencies to encourage them to follow UKEF’s example in aligning its work with net zero emissions by 2050, revisiting their energy support strategy in light of the IPCC’s report, and introducing a strategy to end support to new fossil fuel energy projects by 2021. UKEF should seek multilateral agreement amongst OECD ECAs to join UKEF in making finance flows consistent with a pathway consistent with the Paris Agreement and net zero emissions by 2050. (Paragraph 80)
6. UKEF prioritise a “price gap” approach to measuring subsidies and argue that UKEF do not provide fossil fuel subsidies because they operate at no net cost to the taxpayer. However, critics have argued that this ignores the “inventory method” of support which captures production subsidies. The OECD’s 2018 Companion to the Inventory of Support Measures for Fossil Fuels provides a methodology for quantifying the support element of government credit assistance, to increase the transparency of the “substantial benefits” of government credit assistance to carbon-intensive infrastructure. (Paragraph 81)

7. In addition to considering whether UKEF subsidises fossil fuels under the “price gap” method, UKEF should publish a measure of its inventory support for fossil fuels using the OECD method. UKEF should volunteer to peer-review its fossil fuel support mechanisms, which has been effective in identifying opportunities for increased efficiency in China, Germany, Mexico and the United States. (Paragraph 82)

Energy transition

8. Most of UKEF’s support to UK businesses undermines the UK’s climate commitments. UKEF is a thought leader and plays a key role in de-risking projects, so aligning its support with national and global climate goals is a key step to aligning UK and international financial flows with the Paris agreement. UKEF should commit to only support British businesses in projects that support the UK’s climate goals. Where it is supporting a new energy project, UKEF should show how this supports transition to a low-carbon energy system and aligns with net zero emissions by 2050. Projects supported by UKEF should be able to demonstrate that they have considered a range of potential lower-carbon and renewable options, and that they have selected the option with the lowest feasible emissions. In so doing UKEF should state how its strategy will support a ‘just transition’ to workers in the UK who currently benefit from its support, and how this approach will support decent work in the areas affected. (Paragraph 117)

9. We note that meeting the Paris goals requires most existing fossil fuel reserves to be left in the ground, including gas. We recognise that some fossil fuel use will still be required, even in a net-zero emissions world with warming limited to 1.5°C. However, numerous scenarios show that 100% renewable energy is feasible and desirable. Fossil fuels are therefore not required and should be phased out as quickly as possible. Substitution between fossil fuels in the short term (for example, from coal to gas) can improve access to energy while reducing carbon emissions flow, but this is not enough to guarantee a limit of 1.5°C warming. Moreover, this approach risks future stranding of assets or locking low- and middle-income countries into dependency on high-carbon pathways at a time of growing energy demand and when renewable alternatives are feasible and inexpensive. In the period until UKEF ends support for new fossil fuels (end of 2021) it should always explain publicly on its website why it has chosen to support a fossil fuel project, why lower-carbon alternatives were not pursued, how the project is contributing to energy transition, and what mitigating actions have been taken. (Paragraph 118)

10. While the UK claims to be a climate leader, other ECAs have taken a stronger stance on phasing out support for fossil fuels, for example, Sweden’s Export Credit Corporation (SEK). The SEK have set a cap of no more than 5% of their lending
to go to fossil fuels and in 2018 less than 1% of their support was for fossil fuels. UKEF’s support for fossil fuels is closer to 20%. Moreover, UKEF’s G20 ECA peers gave an average of 7% of support from their energy portfolios to renewables over 2013 to 2015, compared to 0.3–0.5% by UKEF over a similar period. **UKEF should review its energy policy, as it did after the 2015 Paris Agreement, to ensure that it demonstrates climate leadership in responding to current knowledge of climate risks.** We recommend that UKEF’s fossil fuel investment should finish by the end of 2021. At the very least, UKEF should follow Sweden’s Export Credit Corporation (SEK) in introducing a 5% cap on gross lending to fossil fuel operations (coal oil and gas) as a proportion of total support. As with the UK’s domestic carbon budgets, this cap should progressively reduce in size, and should align with supporting net-zero emissions by 2050. (Paragraph 119)

11. **There are huge benefits to being early movers in the transition to the low-carbon energy.** By focusing on transition-related technologies, the UK has the potential to make and develop the technologies that the rest of the world wants to buy. **UKEF returned £500m to the Treasury in the last 5 years.** Noting that key technologies to achieve net-zero emissions are still to be developed fully, we recommend that Treasury ringfences at least 20% of money returned by UKEF from all historic category A (highest risk to environment) projects as well as all projects with forecast emissions of more than 25,000 tonnes of CO₂ equivalent per year, for at least the next ten years. **This money should be invested into renewable energy and low-carbon transition research and development.** (Paragraph 120)

**Policy, measurement and transparency**

12. **UKEF generally does not act beyond the minimum policy requirements to which it considers itself subject.** It is unlikely to change to take more environmental factors into account unless there is a change in the policy or legal frameworks governing its mandate. **Government should legislate to ensure compliance with the UK’s obligations under the Paris climate agreement and other national and international climate and environmental commitments, including the SDGs.** (Paragraph 146)

13. **UKEF already calculates projected emissions for projects that it supports, which it publishes in individual Environmental and Social Impact Assessment documents.** However, it does not report on its emissions at a portfolio level, or on each project in a single location. **For full transparency, UKEF should report on the forecast and actual emissions of all projects it supports, as well as the portfolio totals, in a single document, so that it is easy to access and compare projects. UKEF should also report the total emissions of its portfolio annually in its Annual Report and Accounts. This should not be challenging, as UKEF already collects this data.** (Paragraph 147)

14. **Scope 3 emissions are essential for calculating the full emissions impact of a product, asset or portfolio.** Scope 3 emissions are particularly high for fossil fuel-related projects. **UKEF claim that there is no universally accepted measure for Scope 3 emissions.** However, Scope 3 emissions are already being used in many private sector companies using the GHG Protocol, and the Canadian Export Credit
Agency has already expressed its ambition to work towards the G20 Taskforce on Climate-related Financial Disclosure (TCFD) standards (which would include Scope 3 emissions). (Paragraph 148)

15. **UKEF should report the Scope 3 emissions of all projects, and in particular of all fossil fuel-related projects where Scope 3 emissions are particularly high. The GHG Protocol provides a methodology for calculating Scope 3 emissions, and the TCFD recommendations provide a readily-available source of guidance for this work. If Government considers that existing methodologies for modelling Scope 3 emissions are inadequate, it should support research to develop an agreed model, and should promote this model amongst its ECA peers.** (Paragraph 149)

16. **UKEF should commit to follow recommendations by the Task Force on Climate-related Financial Disclosures (TFCD), including to quantify and report its exposure to stranded assets due to climate change and actions to support energy transition.** (Paragraph 150)

17. **UKEF claims that its activities are supporting transition to lower-carbon energy generation by reducing global GHG flow in comparison to other energy options. UKEF would be able to demonstrate that it is supporting a transition to net zero if it reported fully on the GHG emissions profile of its energy projects, as indicated above, alongside the difference between emissions for alternative energy generation methods. This would allow UKEF to show when fossil fuel substitution had led to a less carbon-intensive option and compare the substituted choice to any feasible renewable energy alternatives, whilst still acknowledging the project’s overall contribution to climate change based on GHG stock.** (Paragraph 151)

18. **UKEF should report on the GHG emissions profile of each of its energy projects, including its net emissions and the difference between modelled emissions for alternative energy generation methods. The alternative energy generation methods should include the incumbent generation method (when the UKEF-supported project is substituting a more emissions-intensive energy production method) as well as any feasible renewable energy alternatives. UKEF should also calculate and report the net difference that it makes to emissions in export countries across its portfolio.** (Paragraph 152)

19. **The remit of the Export Guarantees Advisory Council (EGAC) should be expanded to include assessing how UKEF’s activities contribute to the UK’s climate commitments and greenhouse gas net zero targets. The EGAC should report regularly on this progress to the Secretary of State for International Trade.** (Paragraph 153)
Appendix: Climate risks associated with 1.5°C and 2°C warming

1) The figures below contain summaries by the Committee on Climate Change and the Intergovernmental Panel on Climate Change relating to the risks associated with 1.5°C and 2°C global heating.

Figure 8: The Committee on Climate Change’s summary of climate risks below 2°C and 1.5°C of global heating

Box 5. Climate risks

Limiting warming to below 2°C would avoid a number of damaging climate risks that are expected under the current trajectory.

- Risks of extreme weather events would be reduced. For example, keeping warming to below 2°C would nearly halve the expected global average drought length relative to a 3°C warmer world from 18 months to 11 months and improve crop yields in many countries.
- Significant changes in ecosystems would occur at 2°C warming, but there would be clear benefits compared to higher levels of warming, with global species extinction risk reducing to a ‘moderate’ level compared to ‘high’ levels under 4°C warming. However, the rate of climate change would still likely be too fast for many species to be able migrate to regions with acceptable climates.
- The probability of an ice-free Arctic summer (i.e. a summer when there would be no sea ice in the Arctic) would be reduced from over 1 in 2 to nearly 1 in 10 relative to a 3°C warmer world. Sea Ice is critical for the unique Arctic ecosystem and may have links to mid-latitude weather.
- Impacts on human systems and the economy would be lower, but not zero, across a range of different indicators, including impacts on crop yields and flooding risks.
- Risks of ‘tipping points’ in the climate system are still moderate at 2°C, but are lower than at higher levels of warming.
- Benefits from avoided climate risks will also be felt within the UK, including reduced water stress, less flooding, reduced coastal erosion and reduced summer heat stress. These are set out in detail in the Climate Change Risk Assessment, which the Committee is currently updating.

The IPCC Special Report identified a number of substantial climate risks that would be avoided by keeping warming to below 1.5°C compared to higher levels.

- Climate extremes. Temperature extremes are expected to increase by 2-3 times the increase in global average temperature between 1.5°C and 2°C. Around 420 million fewer people would be exposed to extreme heatwaves if warming was kept to 1.5°C than 2°C.
- Ecosystems. Risks of species extinction on the land and in the ocean are lower at 1.5°C than 2°C. For example, the fraction of global land area that would change ecosystem type due to climate change factors at 2°C (13%) would be roughly halved if warming was kept below 1.5°C (7%).
- Distribution of risks. The additional increase in climate risk between 1.5°C and 2°C warming would affect poor and vulnerable people most of all. Poverty and disadvantage have increased with recent warming and are expected to increase for many populations as average global temperatures increase from 1°C to 1.5°C and higher.
- Irreversible changes. Marine ice sheet instability in Antarctica and/or irreversible loss of the Greenland ice sheet could possibly be triggered by warming between 1.5°C and 2°C. Keeping warming as low as possible reduces the risk of triggering these large-scale irreversible shifts in the climate.


Source: Committee on Climate Change, Net Zero: The UK’s contribution to stopping global warming, (2019) p.31
2) In the above figure the five integrative Reasons for Concern (RFC) provides a framework for summarising key impacts and risks across sectors and regions, based on IPCC’s assessment of the new literature that has appeared.\textsuperscript{236} IPCC defines the RFCs as follows:

- **RFC1 Unique and threatened systems**: Ecological and human systems that have restricted geographic ranges constrained by climate-related conditions and have high endemism or other distinctive properties. Examples include coral reefs, the Arctic and its indigenous people, mountain glaciers and biodiversity hotspots;

- **RFC2 Extreme weather events**: Risks/impacts to human health, livelihoods, assets and ecosystems from extreme weather events such as heat waves, heavy rain, drought and associated wildfires, and coastal flooding;

- **RFC3 Distribution of impacts**: Risks/impacts that disproportionately affect particular groups due to uneven distribution of physical climate change hazards, exposure or vulnerability;

- **RFC4 Global aggregate impacts**: Global monetary damage, global-scale degradation and loss of ecosystems and biodiversity; and

\textsuperscript{236} IPCC, Global Warming of 1.5°C: Summary for Policymakers, (2018), p.13
• RFC5 Large-scale singular events: Are relatively large, abrupt and sometimes irreversible changes in systems that are caused by global warming. Examples include disintegration of the Greenland and Antarctic ice sheets.\textsuperscript{237}

3) In relation to the impacts and risks for selected natural, managed and human systems, the IPCC report emphasises that this selection is “illustrative and not intended to be fully comprehensive.”\textsuperscript{238}
Draft Report (UK Export Finance), proposed by the Chair, brought up and read.

Paragraphs 1 to 153 read and agreed to.

Appendix agreed to.

Summary agreed to.

Resolved, That the Report be the Nineteenth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[The Committee adjourned]
Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee’s website.

Tuesday 5 February 2019

Professor Jim Skea, Chair in Sustainable Energy, Imperial College London; and Co-Chair of Working Group III of IPCC, Professor Kevin Anderson, Professor of Energy and Climate Change, University of Manchester, and Deputy Director of the Tyndall Centre for Climate Change, Navraj Ghaleigh, Senior Lecturer in Climate Law, University of Edinburgh

Q1–38

Tuesday 26 February 2019

Greg Muttitt, Research Director, Oil Change International, Mike Knight, Carbon Tracker Initiative, Andrew Scott, Senior Research Fellow, ODI

Dr Ben Caldecott, Director, Oxford Sustainable Finance Programme, Smith School of Enterprise and the Environment, University of Oxford, Neil McCulloch, Principal, The Policy Practice Ltd; Director, McCulloch Consulting; and Associate Fellow, Institute of Development Studies

Q39–65

Q66–101

Tuesday 19 March 2019

Guto Davies, MD, Global ECA CoE Leader, GE Capital, Matthew Crewe, MD, Greens power, Wakefield, and Andrew Wiseman, Chair, Export Guarantees Advisory Council

Louis Taylor, Chief Executive, UK Export Finance, and Director General, DIT, Baroness Fairhead CBE, Minister of State for Trade and Export Promotion, Department for International Trade, and Rt Hon Lord Henley, Parliamentary Under Secretary of State, BEIS

Q102–213

Q214–326

Tuesday 26 March 2019

Yavuz Akturk, Director, ENKA UK Construction Limited, and Kagan Yalcın, Commercial Manager, ENKA Insaat ve Sanayi A.S.

Q327–395
Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee’s website.

EXF numbers are generated by the evidence processing system and so may not be complete.

1. Aberdeen and Grampian Chamber of Commerce (EXF0025)
2. Abibiman Foundation (EXF0035)
3. Both ENDS (EXF0005)
4. Carbon Tracker Initiative (EXF0010)
5. Catholic Agency for Overseas Development (CAFOD) (EXF0002)
6. Christian Aid (EXF0016)
7. ClientEarth (EXF0030)
8. Dodgson, Mr Stephen (EXF0024)
9. E3G (EXF0034)
10. The Elders Foundation (EXF0037)
11. ENKA UK Construction Limited (EXF0027)
12. Export Guarantees Advisory Council (EXF0023)
13. General Electric (EXF0031)
14. Ghaleigh, Navraj (EXF0019)
15. Global Witness (EXF0018)
16. Global Witness (EXF0032)
17. Global Witness (EXF0033)
18. Grantham Institute Imperial College London (EXF0011)
19. Green, Mr Fergus (EXF0022)
20. Greenpeace (EXF0001)
21. McCulloch, Independent expert on fossil fuel subsidies Neil (EXF0008)
22. Oil & Gas UK (EXF0013)
23. Oil Change International (EXF0017)
24. Overseas Development Institute (EXF0004)
25. Overseas Development Institute (EXF0029)
26. Platform (EXF0006)
27. Stockholm Environment Institute (EXF0014)
28. Tearfund (EXF0015)
29. Third Generation Environmentalism (E3G) (EXF0021)
30. UK Export Finance (EXF0009)
31. UK Export Finance (EXF0028)
32. UK Student Climate Network (EXF0036)
33. WWF (EXF0007)
List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee’s website. The reference number of the Government’s response to each Report is printed in brackets after the HC printing number.

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