7 May 2021

Submitted via: https://committees.parliament.uk/submission/#/evidence/455/preamble

Re: International Development Committee inquiry on climate change, development and COP26

To whom it may concern:

As an organization, Friends of the Earth US (FoE US) fights to protect our environment and create a healthy and just world. We speak truth to power and expose those who endanger people and the planet. Our campaigns work to hold politicians and corporations accountable, transform our economic systems, protect our forests and oceans, and revolutionize our food and agriculture systems. Related to this inquiry, FoE US campaigns hard to ensure that development finance institutions and export credit agencies implement strong environmental and social safeguards and end their support for fossil fuel projects.

FoE US submits this written evidence to answer "the extent to which the Government has made progress on implementing the Committee's recommendations, particularly those on … the use of ODA to support fossil fuels." While the government has made progress on the IDC's recommendations to end the use of UK aid to support fossil fuels, the policy's loopholes undermine its ambitions and efforts to limit global warming to 1.5 degrees.

Amount of UK Aid-Based Fossil Fuel Investments

UK aid-derived support for fossil fuels is provided through several aid-funded institutions including the wholly UK government-owned CDC Group, the majority UK-funded Private Infrastructure Development Group (PIDG), and Multilateral Development Banks (MDBs) like the World Bank and the African Development Bank (AfDB). Since its formation the PIDG has made commitments of $781.5 million to fossil fuel power; $138 million to gas transportation, distribution and storage; $116 million to mining and upstream oil and gas; and $96 million to oil transportation, distribution and storage, including many of the same projects supported by CDC Group and UK aid-funded MDBs.

As of December 2019, CDC Group's total investments and investment commitments to fossil fuels totalled at least $987.7 million, including the reported value of its direct investments in fossil fuel energy ($674.7 million), the reported value of its 42 investments in fossil fuel companies through managed funds ($160.7 million), and total existing direct commitments to fossil fuel energy awaiting disbursement ($152.3 million). In 2019, fossil fuels accounted for 85 percent of the total electricity generated and distributed through CDC investments. CDC Group also has further unquantified exposure to fossil fuels through non-power but fossil fuel-related direct and managed fund investments (for example in cement, fertiliser, transport, and telecoms), and through its investments in financial institutions.

An example of CDC Group's disastrous fossil fuel financing is investment in the gas development and a power plant in northern Mozambique. CDC owns 70 percent of Globeleq – the largest private developer, owner and operator of independent power plants in sub-Saharan Africa. Globeleq is the lead developer of a new gas power plant in Temane in the Cabo Delgado region of Mozambique. CDC has previously given support to Mozambique's fast growing gas industry when it made an intermediated investment in African Century Real Estate, a developer of luxury hotels and shopping malls for foreign gas workers in Cabo Delgado, with apartments costing up to $380 a night. In 2020, the UK also provided a $1 billion loan to a separate gas power project owned by Total via UK Export Finance. These investments, which would all still receive funding under the new policy, are highly problematic as they are responsible for widening the wealth disparity and fuelling local conflict, despite risks that were known before support was approved. Furthermore, Mozambique has suffered the impacts of major extreme weather events including Cyclone Idai and Cyclone Kenneth due to the country's high climate risk. The UK government recognizes these challenges and has contributed UK aid to build climate resilient infrastructure and respond to extreme weather events in Mozambique. To be supporting the expansion of gas infrastructure on one hand while investing millions in disaster response and climate resilience on the other highlights the inconsistency of UK policy in this area.

The Negative Impact of Gas on the Climate

The gas sector emits a large and growing amount of methane emissions, making any new fossil fuel power plants, including gas power plants, incompatible with 1.5 degrees Celsius. According to the Intergovernmental Panel on Climate Change, methane is a greenhouse gas that is 87 times as potent as carbon dioxide over a 20-year timeframe.[1] Studies since the last IPCC report have found that methane's global warming potential is probably 14 percent higher than that. Using the 20-year time period, both shale gas and conventional natural gas has a greater climate impact than coal or oil because natural gas is composed largely of methane, which is far more effective at trapping heat in the atmosphere than is carbon dioxide. Therefore, smaller amounts of methane emissions can lead to a larger climate footprint than similar carbon dioxide emissions. This is especially relevant since the estimates of methane pollution are increasing; for example, natural gas power plant emissions are up to 120 times more than previously thought. Moreover, any climate benefit from switching from coal to natural gas is offset by methane leakage, as well as the displacement of renewables. Investment in natural gas often diverts financing away from renewables, such as solar and wind, resulting in the installation of fewer megawatts of renewable energy in favor of natural gas.

UK's Failure to End Aid Support for Fossil Fuels

The UK government has not ended public financing of fossil fuels via the aid budget despite the Prime Minister's announcement to do so in December 2020. When the full details of the policy were announced in March 2021, it was revealed that significant loopholes (or "exclusions") had been introduced to allow UK-aid funded institutions to continue financing fossil fuel infrastructure. These loopholes mean that 94 percent of CDC investments in fossil fuel infrastructure would still be allowed. These exclusions will allow support for:

- Gas-burning power generation projects;
- Gas power generation and directly associated transmission infrastructure by CDC Group; and
- Gas power from institutions in receipt of UK aid, such as the PIDG which receives 75% of its funding from the UK government.

[1] Some calculations of methane's impact look at the longer timeframe of 100 years, but the shorter 20-year timeframe is more appropriate to properly reflect methane's stronger impact in the short-term due to its atmospheric lifespan of about 12 years. Considering that scientists have concluded that significant reductions must take place in the next decade in order to limit the worst impacts of climate change, it is imperative to account for methane's warming impact in the short-term.

In July 2019, the International Development Committee noted the inconsistency of the Government providing climate aid with one hand, and spending billions on fossil fuel projects abroad with the other. The Committee noted, "supporting the fossil fuel economy in developing countries damages the effectiveness of the UK's approach to combating climate change and this should be rectified urgently."

The UK Government Can End Support for Fossil Fuels from CDC Group and the PIDG

The government has both the means to force a complete moratorium on fossil fuel finance on CDC Group and the knowledge that this will have a significant impact in reducing the UK's support for fossil fuels. Despite claiming to have an arm's length relationship with CDC, the UK Government is CDC's only shareholder, CDC has its own minister in government, and the UK Government has provided CDC with approximately £4.3 billion in capital since 2015. CDC Group has a portfolio of fossil fuel investments worth approximately $988 million as of December 2019.

As the single largest donor, the UK also has a high degree of control over the activities of the London-based PIDG. Since its formation, the PIDG has made commitments of $781.5 million to fossil fuel power and $138 million to gas transportation, distribution and storage. The UK must use this position to ensure that PIDG stops financing fossil fuels.

Improvements Needed to the UK's Policy

The UK government must end support for all overseas fossil fuels projects without exception. This should include the following steps:

- All exemptions regarding gas power and associated infrastructure should be eliminated, forbidding such investments from CDC Group, the PIDG, or other aid assistance;
- CDC Group's policy must commit to divestment from existing investments in fossil fuel projects;
- CDC's policy should make financial institutions with fossil fuel exposure ineligible for investment;
- CDC's policy and guidance should be expanded beyond power to include industrial and commercial users of fossil fuels for whom large-scale consumption of fossil fuels is intrinsic to their operations;
- For multilateral development banks (MDBs), the policy should guide both the UK's voting positions and its approach to fund replenishments.

Without these improvements, the UK's overseas development assistance will continue to provide billions of dollars for fossil fuel projects that will pollute for decades to come.

Ending overseas support for fossil fuels will have positive economic impacts both in the United Kingdom and abroad. Without the international subsidies for fossil fuel projects in host countries, these countries will shift towards renewable energy, especially if UK support is shifted from fossil fuels to renewables. Renewable energy projects will create green jobs in the solar, wind, and other industries. In addition, host countries will benefit economically from better health outcomes and cleaner air and water as a result of a reduced fossil fuel production and use.

Conclusion

United States President Biden announced a plan for the U.S. government to end its overseas support for fossil fuels, including from the U.S. Export-Import Bank and the U.S. International Development Finance Corporation (DFC). In implementing that plan, DFC put forward a target to be net zero by 2040, which is woefully insufficient to reduce DFC's negative impact on the climate. The UK Government must lead by example and potentially catalyse stronger action from the United States and other countries in the lead up to COP26. Therefore, the UK government must immediately end all support for fossil fuels from CDC Group and the PIDG. FoE US appreciates your consideration of these comments.

Sincerely,

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