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COP26 STATEMENT ON INTERNATIONAL SUPPORT FOR THE CLEAN ENERGY TRANSITION

IMPLICATIONS FOR GERMAN FOREIGN ECONOMIC POLICY

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Policy recommendations

- **Develop a German position paper that applies to all of Germany's foreign trade promotion and development financing** and, in line with the COP26 Declaration, strategically promotes renewable energies and comprehensively excludes fossil fuels.
- **Strengthen the COP26 Clean Energy Transition Statement as part of Germany's climate diplomacy**, especially at EU level and the G7 Presidency to broaden the support of the international community through further signatories and shifting the focus on investments in renewable energy systems.
- **Maintaining credibility vis-à-vis international partners by advocating at EU** level for a coherent exclusion of fossil fuels in climate-relevant processes (taxonomy, TEN-E Regulation).
- **Anchor the ambition of the Statement and the German position within state-owned entities KfW and GIZ, as well as EulerHermes**. Furthermore, the position must be reflected in the German government's engagement within multilateral development banks (MDBs) and within the OECD.
- **Send a political signal to developing countries and emerging economies that Germany and industrial partner countries are prioritising the energy transition in the Global South through concessional loans and technology transfers.** The statement is about reallocating investments from fossil energy

sources to renewable energy systems, not cancelling them without replacement.

Background

At COP26 in Glasgow, the German government signed the **Statement on International Public Support for the Clean Energy Transition**. This statement calls on signatories to end the financing of unabated fossil fuels abroad through public funds by the end of 2022. At the same time, green investments should be significantly scaled up in order to drive forward the energy transition, especially in emerging and developing countries. In addition to Germany, eleven other EU states, as well as the European Investment Bank, the USA, Canada and the United Kingdom have signed the declaration.

Summary of the declaration

- The signatories pledge to prioritise investments in clean energy generation that are in line with the "do-no-harm" criteria of the Paris Agreement.
- The declaration is a sign of the growing global consensus that fossil fuels are associated with social and economic risks. Half of the signatories represent emerging economies and developing countries, underpinning the need for a transition from fossil fuels to clean energy in the context of economic development.
- By the end of 2022, international public financing for new unabated fossil fuels is due to end, with clearly defined exceptions that are compatible with the 1.5°C target. The signatories will also raise the commitments resulting from the statement with their export financing agencies, positions in MDBs and the OECD.
- The signatory countries recognise the 1.5°C global warming limit as a guideline, in line with the findings of the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA)'s **Net-Zero Report**.

Implications for German investment policy abroad

- The declaration covers three main areas of German international investment policy. These are: Development finance through KfW and GIZ, export guarantees and credits through KfW and EulerHermes, and the German position within multilateral organisations such as the MDBs and the OECD.

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- In addition, the Declaration plays a role in Germany's international policy initiatives and leadership roles, in particular as holder of the G7 Presidency in 2022, as the largest economy within the EU, and within bilateral energy partnerships and trade relationships.

What investments will need to be shifted/adjusted

- The Statement makes it clear that the financing of fossil fuels abroad must end by the end of 2022. Only in individual circumstances should investments still be possible, provided they are consistent with a 1.5°C pathway and the goals of the Paris Agreement.
- According to the IEA, this excludes the development, promotion, and expansion of existing capacities. Similarly, investments in transport infrastructure and oil-based power plants are excluded.
- When financing gas-fired power plants, stranded asset risks and the potential lock-in effect of fossil infrastructure must be minimised. A credible transition plan that includes a time limit on the use of unabated fossil-fuelled power generation up to a maximum of 2040 in developing countries is necessary.
- The United Kingdom has already presented a **position paper** that corresponds to the ambition of the statement. According to this paper, investments in fossil gas are only possible within the framework of projects to improve energy access in those countries that also have access to the funds of the World Bank's International Development Agency (IDA). In addition, investments in clean cooking technologies are possible, as well as financing in exceptional circumstances.

Next steps for the German government

1. Germany needs **a unified position for public financial investment in energy projects abroad**. The Ministry of Economics and Climate Change (BMWK) and the Federal Foreign Office should take the lead, in consultation with the inter-ministerial committee with the Ministry of Development (BMZ) and the Ministry of Finance (BMF). The position must make a case for targeted investment in renewable energies and exclude fossil fuel-based energy sources.
2. The federal government, as holder of **the G7 presidency, should push for a common approach to scale up infrastructure investments in renewable energy systems and end the financing of fossil fuels**. In doing so, it should

work in particular towards an understanding with Japan (also within the framework of the bilateral German-Japanese Energy Partnership), and aim to win Japan as a supporter of the statement.

3. At bilateral level, **the German government should develop and financially support cross-system energy projects backed by concrete measures**. Investment in renewable energy systems must be combined with a comprehensive offer of technical cooperation, infrastructure development and regulatory cooperation to become an "alternative" to financing fossil energy sources. The focus should be on countries that are particularly vulnerable to transition risks. These include vulnerable exporters of fossil fuels (e.g. Nigeria, Algeria, Indonesia) and developing countries with a high proportion of fossil fuels in their energy mix.

4. **The German government should advocate at EU level for common foreign trade standards that are in line with the spirit of the Statement.** The setting of standards should take place both within EU funding, such as NDICI and the Global Gateway Initiative, and in European development banks. Similarly, the German government should derive a mandate to raise standards in the OECD from the Statement.

5. In order to maintain credibility vis-à-vis international partners, **at the EU level the German government should push for a redirection of financing from fossil energy projects to renewable alternatives**, for instance under the current and new TEN-E Regulation advocate for excluding fossil gas from the EU taxonomy on sustainable finance.

6. The federal enterprises **KfW and GIZ, as well as the service provider EulerHermes, must develop strategic frameworks and exclusion criteria for all fossil energy sources** on the basis of the statement and the German position paper.

7. The **German government will use its voting rights as a shareholder of the multilateral development banks**, in particular the EBRD, AfDB, ADB, AIIB and the World Bank, to promote their support for the statement until the end of 2023.

8. Together with the COP26 Presidency, **Germany can encourage more countries and banks to sign the statement.** With the Egyptian COP27 Presidency, the German government should place a strategic focus on the expansion of renewable energies and the support of sustainable, green, climate-smart economic growth in emerging and developing countries.

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E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.
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