

The world's first fossil-free export credits?

Report



Swedish Society
for Nature Conservation

Published by the Swedish Society for Nature Conservation May 2019

This publication was authored by Anna Östergren

Layout: Anki Bergström

ISBN: 978-91-558-0207-3

Special thanks to Wiert Wiertsema and Niels Hazekamp of Both ENDS,
and to Bronwen Tucker of Oil Change International.

The Swedish Society for Nature Conservation gratefully acknowledges
the financial support of Wallace Global Fund for the translation to English.

Table of Contents

	Summary	4
1	Purpose and limitations	6
2	Introduction	8
3	Export credits	10
4	The Swedish export credit system	12
	Sustainability requirements	14
	Restrictions regarding fossil fuel operations	14
	Lending and guarantees for fossil fuel projects	16
	Fossil fuel projects with significant impact	20
5	Conclusions and recommendations	22
6	Annex 1	24

Summary

The message from climate researchers is crystal clear. Global warming is happening and greenhouse gas emissions must fall quickly to avoid catastrophic consequences. In Paris in 2015, the world agreed to limit global warming to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit the temperature increase to 1.5 degrees Celsius. The Paris Agreement makes it clear that financial flows must be made consistent with a global transition towards renewable energy and a low carbon society.

Officially supported export credits are guarantees or beneficial loans that governments offer to companies to help eliminate the uncertainty of exporting to other countries, in order to promote domestic export industries. Export credits could be used as instruments in the global transition to a low carbon society and to export climate solutions, but currently they contribute to major investments in fossil fuel projects. These projects have major environmental impacts, they are an obstacle to the global transition to a low carbon society, and they counteract the fulfilment of the Paris Agreement.

The Swedish government-backed export credit system consists of the Swedish Export Credit Agency, and the Swedish Export Credit Corporation. They work according to international climate and environmental standards, which allow credits to be used for fossil fuel operations.

The mission of the Swedish Export Credit Agency is to promote Swedish exports by offering companies and banks various types of guarantees that reduce the companies' and banks' payment risks. The Minister for Foreign Trade is responsible for the agency. Between 2014 and 2018, the agency issued guarantees to fossil fuel projects to a value of USD 628 million. This corresponds to 2.3 per cent of the agency's total guarantee volume for that same period.

The Swedish Export Credit Corporation's mission is to guarantee access to financial solutions for export companies by offering beneficial loans. The Ministry of Enterprise and Innovation is responsible for administering the corporation. In 2018, the corporation's gross lending to fossil fuel was USD 268 million, with another USD 2 billion being lent to fossil fuel-dependent infrastructure. Altogether, this constitutes 6.5 per cent of the corporation's total gross lending.

The Swedish government-backed export credit system is thus incompatible with the Paris Agreement and the Swedish Government's ambition to make Sweden the world's first fossil-free welfare state. It is difficult to comment on the environment and climate consequences of the fossil fuel operations that are being realised via the export credit agencies as the information available about the projects is limited. Publicly, the agencies only issue brief information about deals with potentially adverse environmental and/or social impacts. These deals have for example concerned:

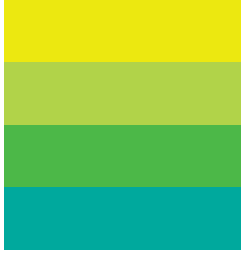
- Power generation from fossil gas in Uzbekistan
- A petrochemical plant in Saudi Arabia
- A fossil gas plant in the Russian Arctic, whose annual greenhouse emissions are estimated at 5.3 million tons of CO₂eq
- A fossil gas pipeline in Azerbaijan

Export credits play a market-complementary role, meaning that they are crucial for realising projects that are deemed risky. The maximum repayment term for the fossil fuel deals can be upwards of 12 years, which risks causing a lock-in to inefficient, fossil fuel-reliant technologies. The fact that export credits to fossil fuels constitute a fairly small part of the Swedish export credit agencies' total business does not mean that they are unproblematic. As the volume of these credits is limited, the introduction of restrictions on fossil fuels should not have a significant impact on Sweden's domestic export industry. Introducing restrictions on fossil fuel projects is possible and necessary in order for the Swedish government-backed export credit system to be compatible with the Swedish climate ambitions and international climate goals.

The Swedish export credit agencies have made some headway when it comes to restrictions on coal power projects, but these restrictions must be expanded to include all kinds of fossil fuel projects. This would make Sweden the first country in the world with a fossil fuel-free export credit system. It would send a clear signal to other governments that export credits should not be used for operations which contribute to an unsustainable reliance on fossil fuels.

As the principal of the Swedish export credit agencies, the Swedish Government has a responsibility to ensure that the agencies' operations are consistent with a fair and sustainable climate policy. The Swedish Government should instruct the Swedish Export Credit Agency and the Swedish Export Credit Corporation to take the following actions:

1. Impose restrictions which ensure that export credits do not enable funding of fossil fuel projects, with regards to extraction as well as power generation (including transport and infrastructure projects relating to these activities).
2. Make information about all deals, including their social, environmental, and climate consequences, publicly available.
3. Promote a revision of the OECD recommendations for member states' export credits with the aim of phasing out the support for fossil fuels.

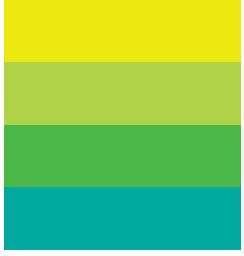


Purpose and limitations

1

This report takes an in-depth look at whether the Swedish export credit system is compatible with the objectives of the Paris Agreement and Sweden's climate ambitions. The report includes a review of the export credit agencies' instructions and guidelines from a climate perspective, and the types of fossil fuel projects that have been enabled by the financial services offered by the agencies. Other operations that the agencies have enabled that can be problematic from a climate and environment perspective, such as mining and the paper and pulp industry, are not discussed in this report.

The fact that fossil fuel projects risk becoming stranded assets and thus constitute financial risks is another argument in favour of imposing restrictions for export credits to fossil fuel projects. However this report does not cover this aspect. Stranded assets are investments in extraction and use of fossil fuels that are not able to generate viable economic returns and which are likely to see their economic life curtailed due to a combination of climate regulations, technology and/or market changes.



Introduction

2

Climate change is a threat to our civilisation. It threatens ecosystems, water supply, food safety, and people's health. Its effects may also lead to conflicts, increased migration streams, and human rights infringements. Greenhouse gas emissions must be reduced quickly in order to avoid devastating consequences. At the same time, prompt action is needed to improve societies' resilience and ability to adapt to current and future climate impacts. Climate change must also be limited in order to combat poverty and create preconditions for sustainable development.

In Paris in 2015, the world's countries agreed to work to limit global average temperature rise to well below 2 degrees Celsius and, given the grave risks involved, to strive for a rise to maximum 1.5 degrees Celsius.¹ The UN Intergovernmental Panel on Climate Change (IPCC) special report *Global Warming of 1.5 °C* emphasises the importance of limiting the warming to 1.5 rather than 2 degrees Celsius in order to avoid devastating consequences. To do this, annual emissions need to decrease by half between now and 2030, and reach net zero by 2050.²

The combustion of fossil fuels – oil, gas, and coal – is the biggest source of greenhouse gas emissions globally.³ To avoid the worst effects of climate change, no new fossil fuel-powered plants should be built after 2017.⁴ This deadline has already been passed. A quick global transition to renewable energy is needed to limit the temperature increase in accordance with the Paris Agreement.

The Paris Agreement emphasises the importance of "*making finance flows*

consistent with a pathway towards low greenhouse gas emissions and climate-resilient development".⁵ This emphasis reflects the fact that limiting global warming is possible only if financial resources are diverted towards carbon-neutral technologies such as renewable energy, and if financial incentives for, and support to, industries related to fossil fuels are quickly removed.

The Swedish Government has stated that Sweden is to become the world's first fossil fuel-free welfare state.⁶ In order to realise this ambition, it must, in accordance with the Paris Agreement, include all financial actors and their national and international operations. As the principal of agencies and state-owned enterprises which offer financial services, the Swedish Government is responsible for ensuring that these actors' operations are compatible with Sweden's ambitions and international climate goals.

1. UN, Paris agreement, 2015
2. IPCC, Global Warming of 1.5 °C, 2018
3. International Energy Agency, Emissions from Fuel Combustion 2017
4. Alexander Pfeiffer, et al. The '2°C Capital Stock' for Electricity Generation: Committed Cumulative Carbon Emissions from the Electricity Generation Sector and the

Transition to a Green Economy. 179 *Applied Energy* 1,395, 2016,
5. UN, Paris agreement, 2015, Article 2.1c
6. Government policy statement 2019

Export credits

3

Governments provide officially supported export credits through Export Credit Agencies (ECAs) in support of domestic companies' international export operations and other activities. ECAs offer beneficial loans and insurances to reduce uncertainties of doing business. The aim of the ECAs is to create job opportunities and promote domestic economy by strengthening the export industry. There is no set model for a typical ECA, but most high income countries, as well as some medium income countries, have at least one ECA acting on behalf of the government.

ECAs play a market-complementary role. This means that they should not compete with private actors, but instead stimulate the market where it is not functioning in a satisfactory way. The export credits are intended to fill a funding gap that private funding cannot fill. Hence, export credits are crucial for realising projects which otherwise would be deemed too risky for private investors. The use of export credits can play an important part in promoting a shift to renewable energy in countries with limited resources, as well as in countries with an unstable investment climate for renewable energy. If the credits are used to enable extraction and combustion of fossil fuels, they are instead contributing to locking us into an unsustainable dependence on fossil fuels. Globally, officially supported export credits constitute one of the biggest enablers of investments in fossil fuels.⁷

The Organisation for Economic Co-operation and Development (OECD)⁸ has a negotiation forum which establishes joint recommendations for its member states⁹

officially supported export credits, including environmental recommendations. These recommendations allow, with some restrictions, export credits to be issued for fossil fuel projects. Between 2003 and 2013 the OECD¹⁰ member states' ECAs insured power projects worth over USD 60 billion. Of these, 62 per cent were fossil fuel projects, 11 per cent were nuclear power projects, and 27 per cent were renewable energy projects.¹¹ The fact that OECD's export credits were used twice as frequently to fund fossil fuel projects than renewable energy projects shows that the credits are an obstacle to the global shift to renewable energy.

7. Oil Change International, Friends of the Earth U.S. and WWF, Financing Climate Disaster 2017

8. The member states subject to the OECD guidelines for export credits are Australia, all EU states, Canada, Norway, New Zealand, Japan, Switzerland, South Korea, and the USA.

9. The OECD's Arrangement on Officially Supported Export Credits

10. Arrangement Official Export Credits for Electric Power Generation Projects (2003-2013), OECD

11. The numbers only show transactions subject to the provisions of the OECD's Arrangement on Officially Supported Export Credits and with projects which have a repayment period of two years or more. It cannot be ruled out that additional official export credits were approved for power projects.



The Swedish export credit system

4

The Swedish government-backed export credit system consists of the limited liability company the Swedish Export Credit Corporation (Svensk Exportkredit AB, SEK) and the government agency the Swedish Export Credit Agency (Exportkreditnämnden, EKN). The mission of SEK and EKN is to promote Swedish exports by making the domestic export industry more competitive, thus contributing to the creation of jobs and growth in Sweden. SEK and EKN cooperate with each other and a number of actors that are not part of the government-backed export credit system.¹²

EKN's mission is to promote Swedish exports by insuring companies' and banks' payment risks. EKN does this by offering various types of guarantees, helping manage transactions, and by making assessments and deciding on compensation in case of payment default. EKN's directive and mandate are governed by a number of regulations.¹³ The day-to-day work is regulated by the Swedish Government via the agency's annual appropriation letter.¹⁴ The Minister for Foreign Trade, at the Ministry of Foreign Affairs, is responsible for EKN in Government. The operation is funded through the clients' premiums, which reflect the risks of the projects.¹⁵

SEK is a state-owned enterprise whose mission is to ensure the supply of financial solutions for companies in the export sector on commercial and sustainable grounds. SEK does this by offering beneficial long-

term loans for Swedish export-related projects. The corporation is run via a government decided ownership policy with guidelines for state owned companies and separate, more detailed ownership instructions for SEK, but also through its articles of association, the annual shareholders' meeting, the board of director and the managing director. The Ministry of Enterprise and Innovation is responsible for administering the corporation.¹⁶

Sweden's export strategy states that Sweden is to have the world's most ambitious environment and climate policy.¹⁸ Accordingly, EKN¹⁹ and SEK²⁰ are instructed to lie at the forefront with regards to sustainability issues and reducing climate impact. They are to help implement Agenda 2030, the Swedish generation and environmental goals, and the Paris Agreement.²¹ In recent years, there have been several initiatives to increase sustainability and reduce emissions. For example SEK has focused on lending via green bonds, and in 2016 SEK joined the Government's Fossil Free Sweden Initiative.²² EKN and SEK have become more restrictive in issuing loans and guarantees to coal power projects, but not for other fossil fuel projects. The fact that the Swedish Government allows SEK and EKN to issue guarantees and loans to other fossil fuel projects is not compatible with the Paris Agreement or the ambition of making Sweden the world's first fossil fuel-free welfare state.

12. EKN and SEK, A Guide to the Swedish Export Credit System, 2016

13. Ordinance (2007:1217) with instructions, Ordinance (2005:746) on investment guarantees and Ordinance (2011:211) on lending and guarantees.

14. EKN and SEK, A Guide to the Swedish Export Credit System, 2016

15. <https://www.ekn.se/om-ekn/>

16. EKN and SEK, A Guide to the Swedish Export Credit System, 2016

18. The Government Offices, Sweden's export strategy, 2015

19. Ministry of Foreign Affairs, Appropriation letter for the

Export Credit Agency 2014-2018

20. The Government Offices, Ownership Instructions for the Swedish Export Credit Corporation 2015

21. Ministry of Foreign Affairs, Appropriation letter for the Export Credit Agency 2014-2018, The Government Offices, Ownership Instructions for the Swedish Export Credit Corporation 2015 and The Government's ownership policy and guidelines for companies with government ownership 2017, The Government's ownership policy and guidelines for companies with government ownership 2017

22. The initiative was launched ahead of the Paris climate meeting in 2015, with the aim of making Sweden one of the world's first fossil fuel-free welfare states.

Sustainability requirements

EKN's issuing of guarantees and SEK's lending is based on the demand for their financial services. The ECAs' sustainability requirements determine that the ECAs are to refrain from participating in deals where the environmental impact is deemed to be unacceptable and incompatible with international guidelines.

When receiving a loan or guarantee application, SEK and EKN assess whether the proposed deal has an acceptable environmental impact. To define acceptable impact, EKN and SEK use the OECD's "Common Approaches" to social and environmental due diligence,²³ the International Finance Corporation's (IFC) "Performance Standards"²⁴ and the IFC's guidelines for environment, health and safety.²⁵ Since 2017, SEK has also used the Equator Principles,²⁶ which are intended to establish, assess, and manage environmental and social risks in projects.

EKN and SEK use the OECD guidelines when classifying the potential impact of proposed deals. SEK also applies the Equator Principles when making its classifications. This means that deals are divided into the following three categories based on their potential impact:

- **Category A** - significant adverse environmental and/or social impacts.
- **Category B** - less adverse environmental and/or social impacts than Category A.
- **Category C** - minimal or no potentially adverse environmental and/or social impact.

In the case of deals with a potentially significant impact, EKN and SEK conduct an in-depth review.²⁷ The scope and nature of the review is based on the size of the deal, the identified risks as well as the agencies' ability to influence the situation. If the agency does not have sufficient information about the deal, or if the environmental impact is deemed unacceptable, the application is rejected from further processing. If EKN and SEK enter into a deal with a potentially significant impact, they can impose conditions and conduct a follow-up during the project.²⁸ When EKN and SEK enter into deals, regardless of the risk of impact, the repayment period is based on the nature and location of the project. According to OECD guidelines, the general maximum repayment period is 8 or 10 years, but for power plants it is 12 years.²⁹

Restrictions regarding fossil fuel operations

Rather than deeming all fossil fuel operations' environmental impact unacceptable, the international guidelines that EKN and SEK apply only recommend considering alternatives to fossil fuel power plants and contain guidelines for emission efficiency. The OECD guidelines include recommendations on restrictions for coal power plants.

23. OECD, Recommendation on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (The "Common approaches")

24. International Finance Cooperation, International Finance Cooperation's Performance Standards, 2012

25. International Finance Cooperation General EHS Guidelines

26. The Equator Principles Association, The Equator Principles

27. The sustainability risk is considered to be increased in the following cases: Category A and B projects, Projects

and operations with a high risk of corruption or human rights violations, or unacceptable working conditions. Conflict areas. Mining and arms exports. Exporters or exporters' customers who are on international blacklists or have been involved in major incidents.

28. EKN, Annual report 2017 and SEK, Annual report 2017.

29. OECD, Recommendation on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (The "Common approaches"),

The OECD agreement on restricting export credits for coal power plants

On January 1 2017, an OECD agreement came into force, restricting the member states' officially supported export credits for coal power plants. By making the agreement, a large number of ECAs acknowledged that credits to fossil fuel projects are problematic. However, the agreement is a compromise and does not fully eliminate the funding of coal power plants. It still allows export credits to be issued to coal power plants in low-income countries, considered to have limited options for their energy production, as well as slightly more efficient coal power plants. Extraction and transport of coal and coal-related infrastructure is also not covered by the agreement.³⁰

In 2018 EKN began applying a more restrictive reading of the OECD guidelines for coal power plants. This means that EKN no longer issues guarantees for deals involving coal power plants or new industrial projects that involve coal power plants, except in low income countries and for power plants with emission-reducing technology³¹ SEK has also decided to lend money to coal power projects only if the project aim is environmental improvement measures. SEK's and EKN's restrictions do not apply to the extraction of coal itself. However, SEK has decided that the corporation's lending to the extraction of fossil fuels shall be less than five per cent of SEK's total gross len-

ding. But this percentage does not include fossil fuel dependent infrastructure and other fossil fuel-dependent assets.³² Other government-owned companies in the export sector have gone further. In 2017 Swedfund, the Development Finance Institution of the Swedish state, decided to completely exclude investments in fossil fuels.³³

The OECD guidelines do not classify all fossil fuel projects as Category A projects, i.e. as projects with the potential for significant adverse environmental and/or social impacts. But since 1 July 2018, EKN classifies new fossil fuel-powered energy production and raw material extraction (coal mines, oil and gas fields) as Category A.³⁴

The fact that SEK and EKN apply stricter rules for certain fossil fuel deals than what OECD's guidelines prescribe shows that individual OECD countries can introduce additional restrictions to their export credit systems. Applying stricter rules has proven to be an effective way of promoting change within the OECD. Doing so made EKN a driving force behind the 2016 decision by the OECD to review all deals with increased risk of significant impact on human rights.³⁵

30. OECD, Statement from Participants to the Arrangement on Officially Supported Export Credits, 2016

31. EKN's stance on issuing guarantees for coal power

32. <https://www.sek.se/wp-content/uploads/2019/02/Årsredovisning-2018.pdf>

33. Swedfund, Swedfund's Position Paper on Climate Impact, 2017

34. EKN Annual report 2018

35. EKN Annual reports 2015 and 2016

Lending and guarantees for fossil fuel projects

SEK's total lending portfolio and EKN's total guarantee volume varies by year, based on which deals are currently underway, but annually amounts to several billion USD.

Guarantee volume and lending portfolio (USD billion)					
Export credit agency	2014	2015	2016	2017	2018
EKN (guarantees volume)	2.9	9.7	4.7	4.3	6.1
SEK (lending portfolio)	25.1	28.8	28.2	28.8	27.9

Figure 1. SEK's total lending portfolio and EKN's guarantee issuing volume between 2014 and 2018 in USD billion.³⁶ Sources: EKN and SEK's annual reports 2014-2018.³⁷

In 2018 SEK's exposure to fossil fuel assets constituted 0.7 per cent (USD 268 million) of SEK's gross lending. This is less than the upper limit of five per cent, which the corporation has set for its gross lending to fossil fuels.³⁸ As shown in Figure 2 and the categorisation below, this percentage includes only the extraction of fossil fuels. It does not include fossil fuel-dependent in-

frastructure or other fossil fuel-dependent assets, which could very well include operations whose main purpose is combustion or transport of fossil fuels³⁹ An assessment conducted by Both ENDS of the Dutch ECA showed that fossil fuel-related projects constituted two-thirds of the ECA's total insured value for that period 2012-2015, and that a large part of these projects were classified as transport.⁴⁰

SEK's gross lending to fossil fuels

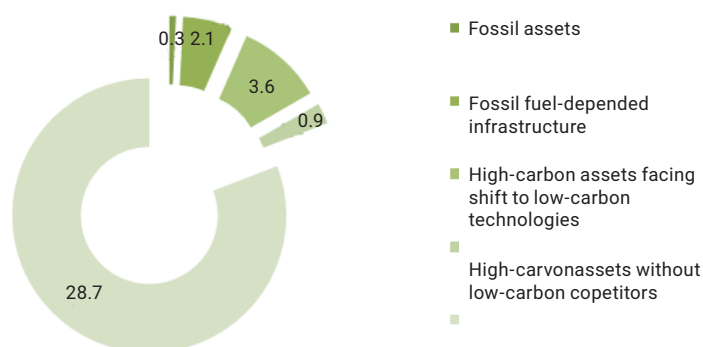


Figure 2. SEK's gross lending to fossil fuel projects in 2018 in USD billion.⁴¹ Source: SEK Annual report 2018.

36. Exchange rate of 1 SEK = 0.107286 USD is used for the conversion (information obtained 2019/03/14)

37. EKN, Annual reports 2014, 2015, 2016, 2017 and 2018. SEK, Annual reports 2014, 2015, 2016, 2017 and 2018.

38. There is no information available about which fossil fuels (coal, oil, or fossil gas) the deals concern.

39. <https://www.sek.se/wp-content/uploads/2019/02/Årsredovisning-2018.pdf>

40. Both Ends, Towards Paris Proof Export Support, 2017

41. Exchange rate of 1 SEK (Swedish Krona) = 0.107286 USD is used for the conversion (information obtained 2019/03/14)

SEK uses the following categories when classifying fossil fuel projects:

- **Fossil assets** – projects aimed at extracting fossil fuels.
- **Fossil fuel-dependent infrastructure** – projects which depend on fossil fuels or assets involved in the transport of these fuels. Airports, pipelines for oil and fossil gas, infrastructure for the transmission of fossil fuel power, roads and railroads whose main purpose is the transport of fossil fuels fall within this category.
- **High-carbon assets facing shift to low-carbon technologies** – projects which have low-carbon alternatives which are expected to replace fossil fuel-dependent or carbon-intensive technologies. Power plants, paper and pulp, producers of cars, trucks and airplanes, and equipment for burning fossil fuels fall within this category.
- **High-carbon assets without low-carbon competitors** – projects which currently do not have any low-carbon alternatives,

such as equipment for producing cement, steel, and glass.

- **Other non-fossil fuel-related assets.**⁴²

Information about which fossil fuels SEK's lending is enabling, or the greenhouse gas emissions that the projects produce, is not available.

Between 2014 and 2018, EKN issued guarantees to fossil fuel projects to a value of USD 628 million. This corresponds to 2.3 per cent of EKN's total guarantee volume for that same period, but the percentage varies from year to year.⁴³ These statistics cover only deals where EKN knows that the end user is active in power generation or fossil fuel extraction. Deals between EKN and end users who do not themselves generate power or extract fossil fuel, but conduct business that enables and promotes the extraction, processing and use of fossil fuels, are not covered by the statistics. However, EKN assures that the fossil fuel deals not reflected in its statistics constitute only a small percentage.⁴⁴

EKN's support for fossil fuels, 2014-2018, USD million

Year	Number of deals	Total guarantee amount	Share of total guarantee volume
2014	4	74.6	2.6%
2015	1	0.1	0.0%
2016	8	149.6	3.2%
2017	6	366.2	8.6%
2018	13	37.3	0.6%

Figure 3. EKN's guarantees to fossil fuel projects in USD million⁴⁵ between 2014-2018. Source: Exportkrediter till fossilkraft [Export credits for fossil power], EKN and correspondence with EKN (see Annex 1).⁴⁶

42. WRI and UNEP-FI Portfolio Carbon Initiative, Carbon Asset Risk: Discussion Framework, 2015

43. EKN, Exportkrediter till fossilkraft [Export credits for fossil power], 2018 and Annex 1

44. This also includes actors working with purification of fossil fuels. However, these projects only constitute 0.1 per

cent of the total guarantee volume for fossil fuel projects.

45. Exchange rate of 1 SEK (Swedish Krona) = 0.107286 USD is used for the conversion (information obtained 2019/03/14)

46. EKN, Exportkrediter till fossilkraft [Export credits for fossil power], 2018 and Annex 1

The major part of the total guarantee volume for fossil fuels was issued for power generation and extraction. 92 per cent of the total guarantee amount was issued for fossil gas, with 8 per cent being issued for coal.⁴⁷ Information about greenhouse gas emissions resulting from these fossil fuel

projects is not available. From a climate perspective, it is positive that EKN in 2018 began applying restrictions for coal power plants. However, during this period EKN's fossil fuel deals concerned the extraction of coal and fossil gas.

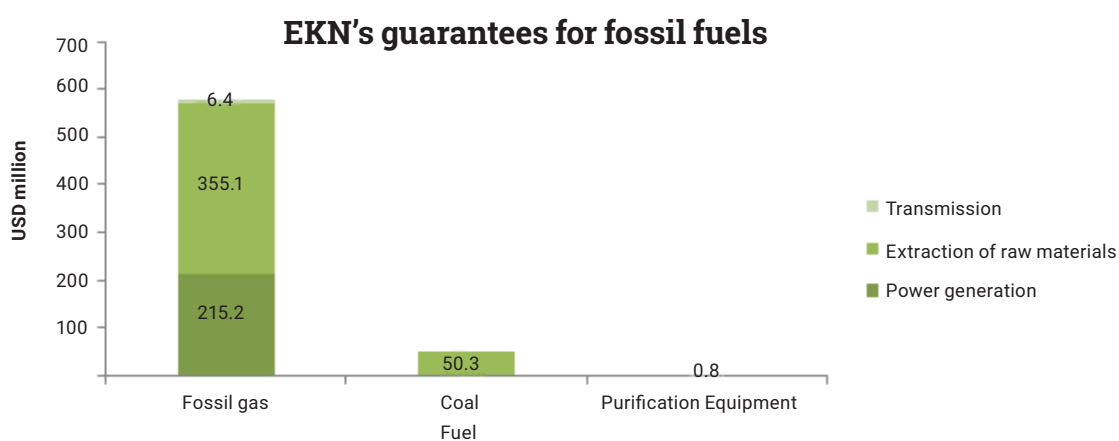


Figure 4. EKN's issuing of guarantees, USD millions, given to various types of fossil fuel projects between 2014 and 2018. Source: Exportkrediter till fossilkraft [Export credits for fossil power], EKN and correspondence with EKN (see Annex 1).⁴⁸

47. See Annex 1

48. EKN, Exportkrediter till fossilkraft [Export credits for fossil power], 2018 and Annex 1

Fossil gas' greenhouse emissions

Fossil gas is often referred to as natural gas, but the name is misleading as the gas is a fossil fuel found in pockets of the earth's crust. It is extracted from separate gas deposits or in connection with drilling for oil. As with other fossil fuels, the combustion of fossil gas produces significant carbon dioxide emissions.

The claim that fossil gas is better for the climate than oil and coal is based on that the combustion of fossil gas results in 40-50 per cent lower carbon dioxide emissions than the combustion of coal, and 25 per cent lower than the combustion of oil. The claim fails to consider the significant methane leakage which occurs when extracting and transporting fossil gas. It is difficult to eliminate the leakage, and if this leakage is considered, the climate impact of fossil gas is at least as severe as oil and coal.⁴⁹

Fossil gas largely consists of the light hydrocarbon methane, which is a very potent greenhouse gas. The climate impact of methane emissions is 34 times bigger than the corresponding emission of carbon dioxide over a period of 100 years, and 86 times bigger over a period of 20 years.⁵⁰ Methane accounts for around a fifth of our current global warming. The extraction and refinement of fossil gas constitutes a significant share of the methane emissions caused by human activity. The IPCC's special report *Global Warming of 1.5 °C* states that the methane emissions must be reduced by at least 35 per cent by 2050.⁵¹

In addition to the climate impact, the extraction of fossil gas can impose health risks for nearby communities and lead to adverse impacts on the local environment. Fossil gas is extracted from deposits in the earth's crust, through conventional or unconventional methods such as fracking. The extraction involves the use of chemicals that risk polluting the drinking water (during the extraction or of via waste water from the production).⁵² The large amounts of water used during extraction through unconventional methods can also contribute to water scarcity. The extraction of fossil gas is also linked to air pollution, which can increase the occurrence of respiratory diseases, cardiovascular diseases, and cancer.⁵³

49. Howarth, R.W., 2015: Methane emissions and climatic warming risk from hydraulic fracturing and shale gas development: implications for policy. Energy & Emission Control Technologies. Department of Ecology and Environmental Biology, Cornell University, Ithaca, NY, USA.

50. Myhre, G., D. Shindell, F.-M. Bréon, W. Collins, J. Fuglestedt, J. Huang, D. Koch, J.-F. Lamarque, D. Lee, B. Mendoza, T. Nakajima, A. Robock, G. Stephens, T. Takemura, and H. Zhang. 2013. Anthropogenic and natural radiative forcing. In *Climate change 2013: The physical science basis: Contribution of Working Group I to the fifth assessment report of the Intergovernmental Panel on Climate Change*, edited by T.F. Stocker, D. Qin, G.-K. Plattner,

M. Tignor, S.K. Allen, J. Boschung, A. Nauels, Y. Xia, V. Bex, and P.M. Midgley. Cambridge, England: Cambridge University Press, 659–740. Online at www.climatechange2013.org/images/report/WG1AR5_Chapter08_FINAL

51. IPCC, Special report Global warming of 1.5, 2018

52. Colborn, T., C. Kwiatkowski, K. Schultz, and M. Bachran. 2011. Natural gas operations from a public health perspective. *Human and Ecological Risk Assessment: An International Journal*. 17(5):1039–1056.

53. McKenzie, L.M., R.Z. Witter, L.S. Newman, and J.L. Adgate. 2012. Human health risk assessment of air emissions from development of unconventional natural gas resources. *Science of the Total Environment* 424: 79–87. doi:10.1016/j.scitotenv.2012.02.018.

In an international comparison, the Swedish ECAs' support for fossil fuels is relatively low. Between 2013 and 2015, the G20 ECAs issued export credits worth a total of USD 32 billion for fossil fuel projects. Within the G20 group, Japan was the country that provided the largest volume of credit to fossil fuel projects – over USD 13 billion annually. Korea and the United States, who annually provided almost USD 8 and almost USD 6 billion respectively, were the second and third largest providers.⁵⁴ In 2018, the Swedish export credit support for fossil fuels was USD 0.3 billion.⁵⁵

It is important to keep in mind that export credits play a market-complementary role, meaning that they are crucial for realising projects that would otherwise be deemed too risky. The maximum repayment term for the fossil fuel deals within the OECD Agreement can be upwards of 12 years, which risks a lock-in to inefficient, fossil fuel-reliant technologies. The fact that export credits to fossil fuels constitute a fairly small part of the Swedish export credit agencies' total turnover does not mean that they are unproblematic. As the volume of these credits is limited, the introduction of restrictions on fossil fuels should not have a significant impact on Sweden's domestic export industry. Introducing restrictions on fossil fuel projects is possible and necessary in order for the Swedish export credit system to be compatible with the Swedish climate ambitions and international climate goals.

Fossil fuel projects with significant impact

SEK and EKN do not publicly disclose information on all ongoing or completed deals, which some other ECAs do⁵⁶ EKN is subject to the national legislation on the principle of public access to official documents⁵⁷ but can, according to Swedish secrecy legislation, make information confidential if a disclosure would damage the guarantee holder. SEK is not subject to the principle of public access, and information about customers and individual deals is confidential.⁵⁸

EKN accounts for its project-related funding according to OECD regulations. These require limited information about Category A-projects (project name, location and type, and a summary of the environmental and social impact assessments) must be made available at least 30 days before a final decision is made.⁵⁹ In its annual report, EKN lists Category A- projects which are not covered by the OECD regulations.⁶⁰ EKN keeps the projects' impact assessments on its website for 30 days after the decision is made.

According to the OECD regulations, publishing can be withheld if deals are subject to bank secrecy, which is the case for SEK deals.⁶¹ Since SEK started to use the Equator Principles in 2017, the corporation presents its project-related funding according to these principles. The Equator Principles make not SEK, but its customer, responsible for publishing a summary of the project's environmental and social im-

54. Oil Change International, Shifting the subsidies database.

55. This includes SEK's gross lending of Swedish Krona 2.5 billion for fossil fuels and EKN's issuing of guarantees worth Swedish Krona 348 for fossil fuel projects. In total, this makes Swedish Krona 2,848 million, which is equal to USD 305 million/0.3 billion at an exchange rate of 1 SEK (Swedish Krona) = 0.107286 USD. Since SEK's transactions are classified as confidential and since it is common for EKN to guarantee the financing SEK assists the export companies' buyers with, double-counting cannot be excluded. That is, the total sum may be lower than the calculation shows.

56. Such as Japan and the USA.

57. Government of Sweden, The principle of public access to official documents

58. SEK, Transparency policy, 2014

59. OECD, Recommendation on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (The "Common approaches"),

60. Either because the export goes to existing operations or because the transaction is less than Swedish Krona 100 million.

61. Ibid

62. The Equator Principles Association, The Equator Principles

pact assessment⁶² As SEK does not publish information about customers and individual deals, it is impossible to know where the environmental and social impact assessments can be found. SEK only presents the number of Category A- and B-projects in its annual reports.

When export credits go to fossil-fired power plants and to projects whose annual emissions are estimated to exceed 25,000 tonnes of CO₂eq, the ECAs shall report the emissions to the OECD, provided that the information is available.⁶³ There is no requirement for this information to be made public.

In other words, information about the fossil fuel projects realised by the Swedish ECAs is limited. A review of the projects with potentially significant adverse environmental and/or social impacts during 2014 and 2018 provides a limited picture of the fossil fuel projects that Swedish export credits make possible.

2017 - EKN - Fossil gas in the Arctic, Russia

The guarantee amount for this project is USD 355 million.⁶⁴ The project involves extracting fossil gas on the Yamal peninsula by the Arctic Sea and constructing an LNG (liquid natural gas) plant and storage and loading facility for LNG. The plant has a capacity of 16.5 million tons of LNG per year.⁶⁵ The annual greenhouse gas emissions are estimated at 5.3 million tons of CO₂eq.⁶⁶ This corresponds to around one tenth of Sweden's territorial emissions in 2017.⁶⁷ The LNG is exported by sea via the Arctic Ocean to Europe and Asia on speci-

ally designed icebreaking ships. The project is categorised as a Category A-project due to its potentially negative impact on the local environment, biodiversity, the Indigenous group Nenets, greenhouse gas emissions, lack of waste management and poor working conditions.⁶⁸

2015 - EKN - Gas pipeline in the Caspian Sea

The project is an expansion of an existing gas pipeline, with the aim to increase the gas transport capacity by around 16 million m³ of gas per year from the Caspian Sea in Azerbaijan to the Georgia-Turkey border. There is a risk that the pipeline will affect red-listed plants and animals and the groundwater in certain areas during the construction phase.⁶⁹

2014 - SEK Petrochemical plant in Saudi Arabia⁷⁰

There is no information available about this project. But it falls within the category of fossil fuel projects as petrochemistry is about refining petroleum and fossil gas and their side products.

2014 - EKN - Power generation from fossil gas in Uzbekistan

The project in Uzbekistan involves extraction of fossil gas from a land-based field in Sugil, south of the Aral Sea, transport via 150 km of gas pipelines, and establishment and operation of a new petrochemical complex for producing refined gas and chemical products. The project involves risks regarding water use, waste management and working conditions as well as subcontractors.⁷¹

63. OECD, Recommendation on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (The "Common approaches"), 2016

64. Exchange rate of 1 SEK = 0.107286 USD is used for the conversion (information obtained 2019/03/14)

65. YAMAL LNG (information obtained 2018/03/20)

66. EKN, Annual report, 2017

67. Swedish Environmental Protection Agency, Växt-husgaser nationella utsläpp och upptag [Greenhouse

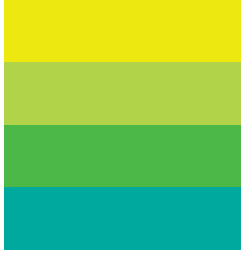
gases national emissions and removals] (information obtained 2019/02/28)

68. EKN, Projektbeskrivning Yamal [Yamal project description] (Information obtained 2018/03/14). The project's environmental impact assessment can be found on EKN's website.

69. EKN Projektbeskrivning South Caucasus Pipeline Expansion (Information obtained 2019/04/23)

70. SEK, Annual report, 2014

71. EKN, Annual report, 2014



Conclusions and recommendations

5

The Swedish Government's message is clear: Sweden is to become the world's first fossil fuel-free welfare nation. In line with this the Swedish export strategy states that Sweden shall have the world's most ambitious environmental and climate policy. There is a clear ambition for the ECAs to contribute to the implementation of the export strategy by ensuring that business is done in a sustainable way and with limited climate impact. In the past few years, several good initiatives have been launched to increase sustainability, such as SEK's increased focus on green bonds and SEK's and EKN's restrictions for lending and issuing guarantees for coal power projects.

But niche funds for green lending and restrictions for a certain type of fossil fuel projects are not enough. As the principal of the Swedish ECAs, the Swedish Government must ensure that the entire government-backed export credit system is consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. Introducing restrictions on fossil fuel projects is possible and necessary in order for the Swedish export credit system to be compatible with Sweden's climate commitments and the Paris Agreement.

The world's first fossil-free export credits

As the OECD guidelines are not yet compatible with the Paris Agreement, Sweden should decide to not issue guarantees or provide loans for fossil fuel projects. There is nothing preventing individual OECD countries from introducing restrictions which are more far-reaching than the guidelines.

- Recommendation: The Swedish Government should instruct EKN and SEK to impose restrictions which ensure that export credits do not enable funding of fossil fuel projects, with regards to extraction as well as power generation (including transport and infrastructure projects relating to these activities).

Increased transparency

Information about the fossil fuel projects realised by the Swedish ECAs is limited. The available information about Category A projects reveals that several of the fossil fuel projects have a potentially negative impact on local populations and local environments. The lack of transparency regarding the ECAs' operations makes it difficult to assess the extent to which they contribute or hinder fulfilling the Paris Agreement. As EKN and SEK are governed by the state, it is important that information about the projects, enabled by the ECAs, is made available to the public.

- Recommendation: The Swedish Government should instruct EKN and SEK to make information about all deals, including their social, environmental, and climate consequences publicly available.

Stricter international guidelines

In its annual reports, EKN maintains that it is an active and influential actor when it comes to influencing the OECD recommendations for officially supported export credits. Applying stricter rules has proven to be an effective way of promoting change within the OECD. Doing so made EKN a driving force behind the 2016 decision by the OECD, to review all deals with increased risk of significant impact on human rights. If Sweden introduces restrictions for fossil fuel project along with increased transparency, the country will be well positioned to advocate for stricter OECD recommendations for Environmental and social due diligence.

- Recommendation: The Swedish Government should instruct SEK and EKN to promote a revision of the OECD recommendations for member states' export credits with the aim of phasing out the support for fossil fuels.

Annex

6

Year	Guarantee	Project	Fossil fuel Exporter		USD million ⁷²
2014	Lender guarantee	Power generation	Fossil gas	Siemens	1.0
2014	Lender guarantee	Power generation	Fossil gas	Siemens	31.2
2014	Lender guarantee	Power generation	Fossil gas	Siemens	31.3
2014	Lender guarantee	Power generation	Fossil gas	Siemens	10.9
2015	Operating credit guarantee	Power generation	Purification equipment	Ewes AB	0.1
2016	Lender guarantee	Power generation	Fossil gas	Siemens	61.4
2016	Lender guarantee	Power generation	Fossil gas	Siemens	61.4
2016	Supplier guarantee	Raw material extraction	Coal	Volvo Construction Equipment	1.3
2016	Operating credit guarantee	Power generation	Purification equipment	Ewes AB	0.1
2016	Supplier guarantee	Raw material extraction	Coal	Volvo Construction Equipment	3.8
2016	Supplier guarantee	Raw material extraction	Coal	Volvo Construction Equipment	3.5
2016	Supplier guarantee	Power generation	Fossil gas	Siemens	18.0
2016	Supplier guarantee	Power generation	Purification equipment	Ewes AB	0.2
2017	Supplier guarantee	Transmission	Fossil gas	ABB	6.4
2017	Lender guarantee	Raw material extraction	Fossil gas	Siemens	355.1
2017	Supplier guarantee	Raw material extraction	Coal	Volvo Construction Equipment	3.2
2017	Supplier guarantee	Raw material extraction	Coal	Epiroc	1.3
2017	Supplier guarantee	Power generation	Purification equipment	Ewes AB	0.1
2018	Supplier guarantee	Raw material extraction	Coal	Volvo Construction Equipment	8.8
2018	Supplier guarantee	Raw material extraction	Coal	Volvo Construction Equipment	6.3
2018	Supplier guarantee	Raw material extraction	Coal	Volvo Construction Equipment	3.8
2018	Supplier guarantee	Raw material extraction	Coal	Volvo Construction Equipment	3.5
2018	Supplier guarantee	Raw material extraction	Coal	Terex Equipment Ld	3.5
2018	Supplier guarantee	Raw material extraction	Coal	Volvo Construction Equipment	2.7
2018	Supplier guarantee	Raw material extraction	Coal	Volvo Construction Equipment	1.9
2018	Supplier guarantee	Raw material extraction	Coal	Volvo Construction Equipment	1.6
2018	Supplier guarantee	Raw material extraction	Coal	Volvo Construction Equipment	1.4
2018	Supplier guarantee	Raw material extraction	Coal	Volvo Construction Equipment	1.4
2018	Supplier guarantee	Raw material extraction	Coal	Epiroc	0.9
2018	Supplier guarantee	Raw material extraction	Coal	Epiroc	0.8
2018	Supplier guarantee	Raw material extraction	Coal	Epiroc	0.6
2018	Supplier guarantee	Power generation	Purification equipment	Ewis AB	0.2
					Totalt: 627.8

72. Exchange rate of 1 SEK = 0.107286 USD is used for the conversion (information obtained 2019/03/14)

The Swedish Society for Nature Conservation is an environmental organisation with power to bring about change. We spread knowledge, map environmental threats, create solutions, and influence politicians and public authorities, at both national and international levels. Moreover, we are behind one of the world's most challenging ecolabellings, "Bra Miljöval" (Good Environmental Choice). Climate, the oceans, forests, environmental toxins, and agriculture are our main areas of involvement.

PG 90 19 09-2

Åsögatan 115
Box 4625, SE-116 91
Stockholm, Sweden

+46 (0)8 702 65 00
www.naturskyddsföreningen.se



**Swedish Society
for Nature Conservation**