

Aligning Finance Flows with the Paris Agreement – Overview and experiences from the export finance system

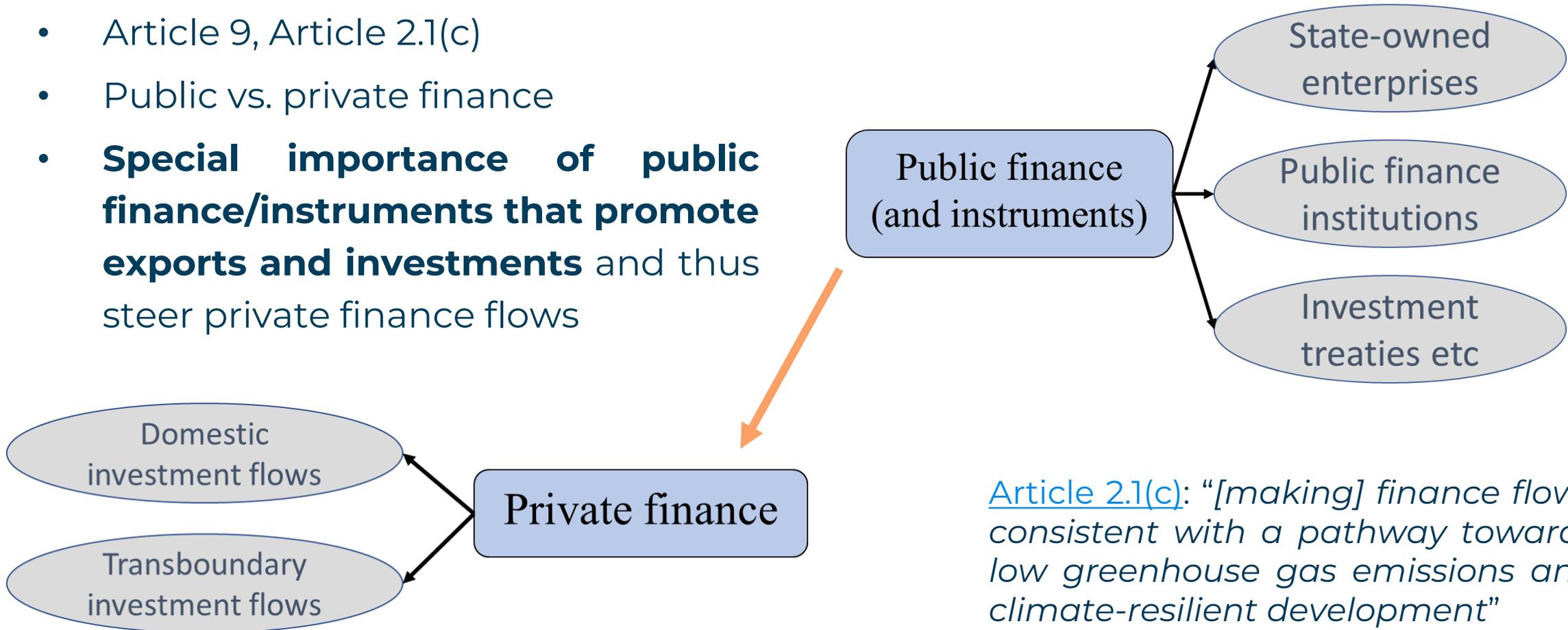
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1. The role of finance in the Paris Agreement and what it means to align with 1.5°C
2. ECAs and investment treaties: An analogy
3. An experience from the export finance community: Initiatives and best practices
4. Investment treaties: quo vadis?

1. The role of finance in the Paris Agreement

- Article 9, Article 2.1(c)
- Public vs. private finance
- **Special importance of public finance/instruments that promote exports and investments** and thus steer private finance flows



[Article 2.1\(c\)](#): “[making] finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”

What does it mean to align finance flows with 1.5°C?

- Meeting the 1.5 °C goal with 50% probability translates into a remaining global carbon budget of ~500 GtCO₂ until 2100
 - Global emission peak before 2030, and ‘net zero’ emissions by 2050 ([IPCC 2018](#))
 - 60% of today’s proven oil and fossil gas reserves, and nearly 90% of proven coal reserves must remain unextracted ([Welsby et al. 2021](#))
 - **But:** Public and private finance for fossil fuels >> climate adaptation and mitigation finance ([IPCC 2022](#))
- **Need to withdraw mis-aligned private finance and public support, and redirect it to sustainable activities**
- **International Energy Agency ([IEA 2021](#)):** No more new coal, oil and gas supply needed to satisfy projected energy demand in a Net Zero Energy (NZE) pathway until 2050 (as of 31 December 2022)

2. ECAs & Investment treaties: An analogy

Export Credit Agencies (ECAs)

- Private or public agencies with mandate to promote national exports
- Provide loans, guarantees, insurance schemes
- Receive premium or interest payments
- Transaction-specific de-risking capacity

Largest class of major G20 PFIs supporting the fossil energy sector (annual average of **USD 40bn** between 2018-20) ([OCI 2022](#))

Investment treaties

- Bi-/multilateral legal instruments protecting investors in the treaties' ambit
- Quasi-public good for investors that have no obligations under the instrument
- Mitigate political or other risks, e.g., transitional climate policy risks

Known 'arbitration claims' in the context of upstream coal, oil and gas (estimates):

Past claims	Future claims
At least USD 244 bn (UNCTAD ISDS Navigator), ~57% of all ISDS claims by value	Up to USD 340 bn if countries follow NZE (Tienhaara et al. 2022)

Initiatives and milestones

- [Export Finance for Future initiative \(E3F\)](#)
- [Reform of the OECD Arrangement](#): Ban of official export credit support for unabated coal-fired power plants
- [COP26 Statement on International Public Support for the Clean Energy Transition](#)

Best practices with relevance to investment treaty reform

- [British ECA](#): First ECA to implement – not only commit to – phasing out most support for fossil fuel projects
- [Dutch ECA](#): Developed a methodology to measure the exposure of its portfolio to the *entirety* of fossil fuel value chains (up-, mid- and downstream)

4. Investment treaties: quo vadis? Desirable outcomes & avenues for reform

- 1. Future arbitration claims from mis-aligned sectors prevented ('carbon carve-out')**
 - No coverage for new upstream coal, oil and natural gas supply projects
 - No or strictly limited coverage for mid- and downstream phases that indirectly spur demand for increased fossil fuel production
- 2. 'Conditionality of cover' introduced** that requires a minimum ambition for organizational net zero targets of the remaining set of investors ("counterparts"), including at least:
 - Front-loaded emission reductions
 - Comprehensive approach to counting emission reductions (incl. scope 3)
 - Cautious use of carbon dioxide removal technologies (e.g., see [Fankhauser et al. 2021](#))
- 3. 'Coalitions of the willing' emulated** that create political momentum working towards a Paris-aligned level playing field for transboundary investments

Avenues for reform of investment treaties in the context of climate change: **Abolitionist or reformist approach?**

Thank you for your attention!

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