Exceptions for gas projects

Coal, upstream oil and gas investments, and investments in new midstream oil and gas infrastructure are completely ruled out under a 1.5 degrees compatible scenario;[19] thus, exceptions by signatories can be expected to be made mainly for downstream oil and gas investments. For these cases, the following criteria provide an overview for relevant elements to include:

(1) Country context:

(a) Does the investment take place in a setting with particularly low energy access rates?

(b) Does the investment take place in a country with a Paris-compatible national climate strategy? (Is the strategy already anchored in legislation or agreed upon in the context of the investment?)

(2) Principle needs and alternatives assessment:

a. Has the exact scope of energy supply needed in the partner country been assessed?

b. Have alternative renewable energy solutions been thoroughly examined and been found technically or economically infeasible to meet these needs?

c. Can the alternatives assessment be accessed and is it convincing and transparent?

(3) Project-specific assessment:

a. Is the project in question required to meet the principle need defined above and is it capable of doing so within a reasonable time frame?

b. Does the project contribute to generating affordable energy access for local population segments most in need of it?

c. Is the project in question compatible with a 1.5°C pathway and the respective CO_2 budget of the country, if checked against a scientifically-based 1.5C-compatible country scenario?

d. Is it compatible with national climate targets (NDC/LTS) as well as with enhanced ambition to be expected in future NDCs?

e. Is the project compatible with the country‘s necessary and timely transition to renewable energy?

f. Has the risk of lock-in to fossil fuels by the project been assessed (incl. considering potential shifts in demand and their consequences) and has it been convincingly found to be minimal? Will lock-in potential be regularly assessed and have measures been identified to mitigate eventual lock-in risk in the future?

g. For investments in new fossil infrastructure: Have alternative investment options in existing fossil infrastructure been assessed and prioritized?

h. Does the project use the best available technology (BAT)?

i. Does the project support energy efficiency?

j. Does the project follow best environmental and social standards and practices, including precautionary measures to minimize methane leakage?

k. Has financial profitability of the overall investment been demonstrated, i.e.

19 See Bouckaert et al. (2021), p. 154.

has it been assessed that the investment is not at risk of becoming a stranded asset? (incl. applying shadow carbon pricing)

l. Does the project's results matrix include at least one climate-related results indicator?

m. Will any potential revenues from the project by the partner country be used to secure clean/renewable and affordable energy?

n. If gas infrastructure: Is a transition to green hydrogen (or derivatives) secured in the project contracts?

o. Has it been verified that the project does not cause any harm to other SDG targets, human rights or biodiversity? Is the application of strong governance criteria (SDG 16) ensured in project contracts?

p. Does the project align with a just transition and is this transition effectively supported by the banks (financially/technically)?

It should be noted that under the 1.5°C criterion alone, a range of downstream oil and gas investments are definitely already excluded, such as e.g. oil for heating, new gas power plants that are not primarily used to meet peak load and stabilize grid frequency, and also gas for cooking and heating when renewables combined with electrification are possible as an alternative.[20] An ambitious MDB-relevant policy compatible with the Glasgow Statement criterion to make any exception compatible with a 1.5 degrees warming limit should therefore exclude these things.

Effective application and accountability

Compliance with the guidance and appropriate accountability are critical. When going through their checklists, it is important for Executive Directors' offices to make sure that all assessments have been carried out transparently and made available to them in due time before the board voting. Shareholder countries should report on respective votes and the compliance of projects with their respective checklist. They should seek to build alliances with both ambitious capital owners and ambitious recipient countries. Recipient countries are free to do so themselves, but without international public financial support. Short-term energy shortages due to the Russian war on Ukraine should not distract from long-term climate goals. All investments need to be directed to sustainable forms of energy now in order to avoid similar future crises anywhere in the world.

Expanding on the Glasgow Benchmark criteria

Shareholders wanting to go a step further in implementing their Paris commitments could include additional important criteria and elements in their respective voting guidance. First, they can expand to a Paris compatible voting guidance by also covering exclusions for climate-problematic investments in other sectors (apart from energy) or by including criteria for just transition and adaptation. Covering wider themes of the Paris Agreement in a voting guidance creates additional levers to hold MDBs accountable to their Paris alignment commitments. Second, shareholders can explicitly state their intention to convince other members within their constituencies of their positioning against fossil fuel support. Swit-

20 See Bouckaert et al. (2021), Fyson et al. (2022), IEA (2022), Gebel et al. (2022).

zerland already includes such a comment in its voting guidance. This approach encourages dialogue with non-Glasgow signatories about the need to phase out fossil fuels and increases the chances of turning around constituency votes. Third, signatory shareholders can limit the time period during which exemptions can be applied, following the Danish example. From 2025 onwards, Denmark will not provide any support for the unabated fossil fuel energy sector. Finally, shareholders could develop a trust fund to cover the costs for independent assessments of MDB analyses of fossil fuel energy projects and potentially also Paris alignment assessments. This would support shareholders in holding the banks accountable.

See our full Policy Brief at: https://www.germanwatch.org/en/87614