SUMMARY OF THE REPORT:

An export finance system that contributes to the climate transition

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Reaching the goals of the Paris Agreement requires a substantial increase in climate investment on a global scale. Estimates range between a three- and tenfold increase in current annual investments. A significant share of this capital needs to come from the private sector. The Swedish and international export finance systems can act as catalysts for the investments required, not least in the current economic crisis left in the wake of the corona pandemic.

The potential of the international export finance system to contribute to the climate transition has yet to be utilized to a sufficient extent. For example, transactions to finance fossil fuel extraction and power production remain far more extensive than the financing of renewable energy for most of the national Export Credit Agencies (ECAs). Regulations that govern the global export finance system have not been adapted to the goals set under the Paris Agreement.

As for all other policy areas, the export finance system, as part of Swedish economic and trade policies, must contribute to achieving the goals pursuant to the Swedish environmental policy framework and thereby contribute to reaching the goals under the Paris Agreement. "Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" is one goal set by the Paris Agreement. For Sweden to meet the requirements of the Paris Agreement, the financial flows that the state controls, directly or indirectly, via EKN or SEK, must align with the wording of the agreement.

EKN's and SEK's financing of Swedish export transactions has only a marginal influence on Sweden's domestic GHG emissions and therefore also on the nationally determined contributions for the reduction of emissions. The Swedish export finance system also has limited impact on the global emission of greenhouse gases. Therefore, a prerequisite for contributing to the global decrease in emissions is that the measures adopted in Sweden act as catalysts and lead to clear leverage effects, partly by influencing other governmental export finance institutions and international regulations, and partly by influencing credit granting and the financial market as a whole toward transition. EKN and SEK, together with other export credit institutes in the OECD, rejecting transactions that have major negative climate impacts and encouraging transactions that contribute to transition, *An export finance system that contributes to the climate transition* (Ref. No. D20/03463) 3 (122), will in time lead to higher risk premiums for operations with negative climate impacts and lower premiums for measures that contribute to the transition.

There are compelling arguments for the international export finance system to act in a complementary role by assuming larger financial risk in projects with the potential to contribute to the climate transition. The complementary role should facilitate, rather than hinder, reaching the goals of the Paris Agreement, which could be the case if the export finance system assumes climate-related financial risks that the private-sector finance market is not prepared to assume.

It is currently a challenging international environment for broad international agreements and multi-lateral trade collaborations. Globally, just as in the OECD, it is difficult to achieve progression when it requires additional agreements to reform regulations for export finance. The fact that major export countries, such as China and India, lie outside the OECD arrangement is an additional challenge. Depending on competition from China, an increased share of export finance from OECD countries occurs outside the framework of the OECD arrangement, through the likes of development finance institutions (DFI) and national development banks.

An efficient and shared set of regulations for the EU and the OECD, and ultimately worldwide, is decisive for the export finance system to be able to contribute to reduced emissions of greenhouse gases at the same time as equal terms apply to competition. The authorities concerned should, in various international capacities, continue to promote a “Paris Agreement adaptation” of the relevant regulations for the international export finance system, including the OECD’s export credit arrangements and the EU’s regulations for state support. For example, the sector understanding in the OECD concerning coal power should be expanded to include coal extraction and coal transportation and the sector understanding covering renewable energy should consist of more flexible and target-oriented conditions for projects advancing the transition. Requirements for a Paris Agreement adaptation of procurements within the international aid system are also important.

An export finance system that is aligned with the Paris Agreement requires a long-term perspective. Measures are required to avoid stimulating further extraction of fossil fuels, of which coal is the most critical. Further requirements are necessary for transition potential in line with the Paris Agreement’s 1.5 °C goal to allow EKN and SEK to participate in transactions that lead to a short-term increase of GHG emissions. Ultimately, measures are required to actively encourage and facilitate export transactions that advance the global climate transition, for example *An export finance system that contributes to the climate transition* (Ref. No. D20/03463) 4 (122), by driving changes in international regulation, actively encouraging transactions supporting transition, supporting projects with export and transition potential within Sweden’s borders and increasing collaboration between Swedish development partnerships and export-promoting activities.

There are sound reasons to develop collaboration and, to a greater extent, identify synergies between the Swedish export finance system and development partnerships to contribute to the global climate transition. For low income countries, major transition projects must in many cases contain an element of aid in order to be possible. Collaboration should focus on areas where Sweden in its entirety, in the public and private sectors, possesses shared solutions. Examples can be biofuels, district heating or public transport. High societal and environmental project requirements typically benefit Swedish products and solutions. Studies ahead of major transition projects, for example the Swedfund Project Accelerator, are important and require development and expansion.

The government has resolved that Swedish export finance for the extraction and exploration of fossil fuels will cease after 2022. EKN and SEK have a shared process for the phasing out of export finance for the extraction and exploration of fossil fuels. The conclusion of financing for operations dealing with the extraction of fossil fuels must be applied in the same manner, regardless of the financial product and irrespective of the financial structure of the extraction project. At the end of 2020, as a milestone in the phase out, EKN and SEK are ceasing to finance transactions pertaining to the extraction and transportation of coal.

Seen from an international perspective, the share of fossil fuel transactions pertaining to the extraction of coal and oil has been and is low in EKN’s guarantee portfolio and in SEK’s credit granting. When it comes to export finance to operations and projects for the extraction of gas, the extent is larger, particularly for guaranteed amounts at EKN. The impact felt on Swedish exports as a whole from not offering state export finance to projects or operations that concern the extraction and exploration of fossil fuels is assessed to be relatively limited from a national perspective. However, there is a significant risk of considerable impact for one exporter – Siemens Energy AB.

According to Siemens, not receiving state export finance for transactions for gas extraction projects could have a considerable impact on the company’s production and job opportunities in Sweden, both at their facility in Finspång and with subcontractors throughout Sweden. Transactions connected to the extraction of gas and LNG production are few compared with other transactions such as gas power projects, but they are nonetheless financially significant.

From the records of the exporters, the risk for seven exporters is a maximum sales loss of the order of 0 to 1 percent, while one exporter risks a maximum sales loss of 1–4 percent. However, these estimates are based on it being impossible for the exporter to find alternative financing or on having to assume major risks in fossil transactions. Two exporters have also stated that product and technology development for individual products can be impacted, while one exporter has stressed that isolated, but potentially significant, transactions have been made impossible by the phase-out.

EKN's total guarantees granted in connection with the extraction of fossil fuels during the 2015–2019 period (excluding one major gas extraction project from 2017) is an average of SEK 300–400 million per year, corresponding to 0.5–0.7 percent of EKN's average guarantees granted for the same period. However, the export volume that is made possible with an EKN guarantee can, in certain cases, be considerably larger than the amount of EKN's guarantee due to service agreements, spare parts and additional value-adding research and development. SEK also conducts a small number of transactions connected to the extraction of fossil raw materials, but these have minimal effect.

EKN's and SEK's proposal for an export finance system that contributes to the climate transition

A societal and environmental sustainability review already constitutes an integrated part of both EKN's and SEK's business assessment. Transactions are screened to identify those with high risk for environmental impact, which are then subjected to in-depth examination. The transaction is given a classification based on its risk for negative environmental impact. In certain cases, clauses are added to guarantees to manage such risks. If EKN and SEK do not receive the requested information, the financial transaction is declined.

In addition to the customary examination of sustainability aspects related to transactions, a number of additional steps have been taken in the past two years in the climate area. In 2018, the EKN Board of Directors resolved to, in line with OECD regulations, no longer provide guarantees for transactions pertaining to coal-powered power stations or new industrial projects that included coal-powered power stations. Additionally, EKN adopted a new sustainability policy in September 2019 that requires EKN to contribute to the realization of the UN Sustainable Development Goals (the 2030 Agenda) and the Paris Agreement and that EKN adopt a restrictive stance for transactions with high negative climate impact, which essentially eliminates guarantees for new major fossil extraction projects. In February 2020, EKN's Board of Directors further resolved to cease with state export credit guarantees for operations pertaining to the extraction and transport of coal from December 31, 2020. This decision also clarified EKN's policy of not granting guarantees for operations that use unconventional extraction methods for oil and gas such as fracking. SEK maintains essentially the same approach as EKN for issues concerning credit granting when it comes to operations that deal with coal or use unconventional extraction methods.

Climate know-how is rapidly developing and processes are ongoing to develop international regulations and guidelines in the financial sector with the aim of supporting action in line with the goals of the Paris Agreement. EKN and SEK assess that individual transaction assessments, which develop over time based on new knowledge and regulations, are necessary in order to contribute to the climate transition. In addition to the government's instruction that export finance may not be provided for the exploration and extraction of fossil fuels after 2022, the operation's integrated sustainability review and the measures already implemented by EKN and SEK, eight mutual proposals for how Swedish and international export finance systems can contribute to a clear transition and a significant decrease in greenhouse gas emissions are outlined below.

Proposal 1: EKN's and SEK's approach for transactions with operations with high GHG emissions, asides from operations that conduct the extraction and exploration of fossil fuels, will place more importance on projects and operations that are in line with the Paris agreement's 1.5 °C goal. The starting point is the undertakings pursuant to the Paris Agreement in the destination country for the export. In transactions that increase GHG emissions, there should be the potential for transition by 2030 and affinity with global net zero emissions by 2050. This includes an analysis of the risk of lock-in effects in fossil infrastructure for the destination country. The effects of transactions on the other SDGs within the 2030 Agenda, both positive and negative, can be weighed using a collective assessment, just as EKN and SEK have the opportunity to influence the transaction in a climate-positive direction by participating.

Proposal 2: The Swedish export finance system should, as a minimum requirement, be able to match other export credit institutions within the EU when it concerns transactions that contribute to the climate transition to make it possible for competition to occur on equal terms. In 2021, EKN will therefore be investigating the possibility of providing transactions that contribute to the climate transition with more balanced conditions based on EKN's products and the restrictions imposed by the Budget Act, the EU's regulations for state support, the OECD arrangement and the WTO regulations. New products aimed at green transactions could also come into question. SEK will increase its share of green loans in its credit granting.

Proposal 3: EKN will examine the possibility of providing guarantees to environmental and climate investments in Sweden that can contribute to the climate transition in those cases where there exists a direct or indirect connection to Swedish exports. These transition guarantees should, when applicable, coordinate with SEK's transition loans and utilize synergies with ongoing governmental initiatives aimed at green export investments and existing state support for companies from, for example, the Swedish Energy Agency.

Proposal 4: EKN will, primarily in collaboration with the Swedish Energy Agency and Almi Företagspartner, but also other relevant bodies, develop information for Swedish SMEs whose products and services have high export potential and can contribute to the global climate transition. If required, product development will take place at EKN in order to satisfy these company's export finance requirements.

Proposal 5: EKN and SEK will further develop their reporting and strengthen the analysis of climate-related risks and opportunities in their respective operations. In time, EKN and SEK will report their respective portfolios in accordance with emerging international best practice in the climate reporting area. From and including the 2022 fiscal year at the latest, EKN and SEK will report in line with the recommendations of the TCFD.[1] EKN, just as SEK, also intends to report statistics for transactions that contribute to the transition and reduced emissions of greenhouse gases from and including the 2022 fiscal year at the latest.

Proposal 6: EKN and SEK have commenced efforts to further increase the transparency of the Swedish export finance system on business, sector and portfolio levels primarily concerning the sustainability and climate areas. EKN and SEK intend to, when possible, set contractual requirements for exemption from applicable NDAs in order to participate in export finance for projects and other

[1] The Financial Stability Board's (FSB) working group Task Force on Climate-related Financial Disclosures (TCFD) came out with recommendations in 2017 for how organizations can report their climate-related financial risks and opportunities.

transactions with high sustainability risks by 2025 at the latest[2]. It is SEK's assessment that the government needs to ensure that increased transparency for export credits, primarily state-supported CIRR loans, can be combined with bank confidentiality legislation.

Proposal 7: EKN and Sida should be tasked with a joint assignment to, in consultation with SEK, Swedfund and Business Sweden as well as other relevant companies, prepare tangible proposals to increasingly leverage existing potential synergies between the export finance system and the Swedish development collaboration based on current goals. The starting point for analysis and proposals is the opportunity for Sweden's public sector and the Swedish business sector to collectively contribute to the realization of the 2030 Agenda and reach the global goals of the Paris Agreement. Increased collaboration is a precondition for the exchange of Swedish technology within the areas that are crucial for the global climate transition. This is also a matter of competition on equal terms as many of the OECD countries have a closer and more strategic collaboration between the national export finance system and the development collaboration.

Proposal 8: EKN and SEK will establish a joint climate council. The council will operate as a general knowledge resource for EKN and SEK and assist with expertise in issues that, for example, concern climate research and the development of international regulations and reporting standards connected to the goals of the Paris Agreement. The focus of the council's work is the global climate system. The council should be made up of climate researchers from various disciplines and representatives from relevant expert authorities, as well as other players.

[2] In this case, it should be stressed that this pertains to transparency concerning issues related to business confidentiality in accordance with Chapter 30 Paragraph 23 of the Public Access to Information and Secrecy Act (2009:400) and bank confidentiality in accordance with the Banking and Financing Business Act (2004:297). This does not apply to foreign and defense confidentiality, in accordance with the Public Access to Information and Secrecy Act chapter 15.