Department for
Business, Energy
& Industrial Strategy

Aligning UK international support for the clean energy transition

Government Response

March 2021

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Contents

General information

Purpose of this response

At the Climate Ambition Summit on 12 December 2020, the Prime Minister announced that the UK will no longer provide any new direct financial or promotional support for the fossil fuel energy sector overseas, other than in limited circumstances, as soon as possible, and align its support to enable clean energy exports.

A consultation was held between 12 December 2020 and 8 February 2021, seeking views on how to further enable an accelerated growth in UK clean energy exports, and on the impacts of timing options for implementing this policy shift on international fossil fuel energy sector support.

This document sets out a summary of responses to the consultation, and the government's response.

Territorial extent:

The territorial extent is UK wide.

Executive Summary

At the Climate Ambition Summit on 12 December 2020, the Prime Minister announced the intention for the UK to no longer provide any new direct financial or promotional support for the fossil fuel energy sector overseas. The Prime Minister said:

> *"Climate change is one of the great global challenges of our age, and it is already costing lives and livelihoods the world over. Our actions as leaders must be driven not by timidity or caution, but by ambition on a truly grand scale.*
>
> *That is why the UK recently led the way with a bold new commitment to reduce emissions by at least 68% by 2030, and why I'm pleased to say today that the UK will end taxpayer support for fossil fuel projects overseas as soon as possible.*
>
> *By taking ambitious and decisive action today, we will create the jobs of the future, drive the recovery from coronavirus and protect our beautiful planet for generations to come."*

The government launched a consultation following the Prime Minister's announcement, seeking views on how to support further an accelerated growth in UK clean energy exports, and on the impacts of different timing options for implementing the policy shift. This closed on 8 February 2021.

The government received over 42,000 written responses, the majority from individuals as part of civil society campaigns. 38 industry responses were received from representative bodies, oil and gas majors, businesses in the supply chain and SMEs. 53 civil society responses were received from organisations based in the UK and around the world. In addition, roundtables were held with representatives of the oil and gas industry, and civil society representatives from the UK, Europe and developing countries.

Summary of responses

The global energy transition, and how to further enable an accelerated growth in UK clean energy exports

Responses to the first section of the consultation on the UK and global energy transition demonstrated a general consensus across industry and civil society on the importance of the clean energy transition and the opportunities that it offers. Most industry respondents recognised the need to transition to renewables and low carbon markets, although they noted the importance of this transition being orderly and over a sufficient time period for clean energy markets to develop successfully.

Respondents consistently identified enhanced UK Export Finance (UKEF) financing options as necessary for overcoming the higher upfront capital expenditure cost and risk of overseas renewables projects, particularly for SMEs and supply chain companies.

Making the policy shift – timing and impacts

The government stated in the consultation document its intention to implement the world-leading policy shift as soon as possible and set out four possible implementation options:

(a) March 2021

(b) June 2021

(c) October 2021

(d) Later than 2021.

Option (d) was noted in the consultation document to require firm evidence of significant economic impacts of the withdrawal of UK government international support.

Implementing as soon as possible was powerfully endorsed by civil society respondents, including the tens of thousands of campaign responses. They considered implementation of the policy shift in March 2021 to be of vital importance for the UK's global climate leadership and climate impact. This would ensure the UK had maximum credibility and clarity of purpose so that it could engage others to take similarly ambitious decisions, in a year that included multiple high-profile, leader level moments including the UK-hosted G7 and COP26 summits.

Industry, in the majority, advocated for much later implementation timings of 2, 4 or even 5 years, noting unmitigated immediate implementation would exacerbate the challenges posed by COVID-19 and the low oil and gas prices that the sector was currently experiencing. Whilst no substantive evidence was provided regarding the impacts of different timing options, qualitative evidence consistently indicated SMEs and businesses along the supply chain were most likely to be affected as they had less capacity to react to a rapid transition. Some supply chain firms saw clarity of scope of the policy shift as of greater importance than the timing of implementation.

Government response

The government thanks respondents for the feedback and evidence provided in response to this consultation. We welcome the broad support for the energy transition and note the commitment of all respondents to making it a success for the UK. We have considered the evidence provided carefully both in relation to the actions required to support an accelerated growth in UK clean energy exports, and on the optimum timing and associated support for making the policy shift.

Action to support an accelerated growth in UK clean energy exports

The evidence provided by industry respondents regarding actions to support an accelerated growth in UK clean energy exports has informed the transformational North Sea Transition Deal, on which we have worked closely with the sector to agree. It is an agreement that provides the support of government for continued production on the UK Continental Shelf and policies that enable the delivery of new technologies, in return for equal commitment to protecting jobs and contributing to the energy transition.

The Deal recognises the challenges facing the sector and sets out an ambitious plan to meet stretching greenhouse gas emission targets. It will also harness the power of the oil and gas sector, anchor its expert supply chain to the UK and support high-quality jobs.

We expect the Deal will deliver significant net benefit to both the UK economy and our action on climate change. This will include supporting approximately 40,000 energy jobs, £14-16bn investment to 2030, a 60 million tonnes reduction in UK greenhouse gas emissions (15 million tonnes from offshore production) and support for the regions through a voluntary commitment to 50% UK content in North Sea Transition Deal projects.

In addition, the government is already taking action to support clean energy exports and in helping the UK oil and gas industry to transition to these new markets. UK Export Finance (UKEF), the UK government's export credit agency, is proactively developing the breadth of its support for renewable sectors, with £2 billion allocated at Budget 2020 to UKEF's direct lending facility for clean growth and renewable energy projects. UKEF also already provides favourable financing terms for renewable energy projects with repayment periods of up to 18 years, nearly double the usual 10-year outlook.

UKEF continues proactively to broaden its support for clean growth, renewables and climate resilience sectors. It has recently supported three large-scale windfarms off the coast of Taiwan with over £500 million and provided £47.6 million of support to build two of the largest solar plants in Spain. This is enabling UK firms to win green energy contracts that they otherwise may not have been able to.

DIT is actively supporting the UK renewable energy sector, including through a number of ongoing campaigns, and is now working to support clean growth across all sectors through a new clean growth unit. Work underway includes mapping export and investment capability across UK clean sectors to support UK businesses export and attract investment. DIT is also proactively reorienting its work in line with this policy shift. DIT will use its ambitious independent trade policy, including Free Trade Agreements, to expand access to international opportunities in clean energy, removing barriers and working through government-to-government engagement to realise international ambitions.

Making the policy shift – implementation timing and support

The consultation has provided strong evidence that early implementation will be crucial to ensure maximum benefit of making the policy shift for UK climate leadership and overall climate change mitigation impact, giving sufficient time ahead of COP26 to develop a coalition of likeminded partners on this agenda to accelerate the clean energy transition globally. This is in line with the stated intention for the government to implement as soon as possible. The evidence has also underlined the need to ensure that the skilled and dynamic UK energy industry is effectively supported to transition successfully to exploit the opportunities presented by growing clean energy export markets.

Therefore, the government will implement the policy shift on 31 March 2021, but with strong mitigating and supportive actions that respond to the evidence provided through the consultation process.

Based upon the evidence on relative impacts, the government considers it appropriate to provide a one-year exemption for SMEs from implementation of the policy shift, to ensure the most vulnerable firms are given time to adjust.

Furthermore, to ensure that businesses including the supply chain are supported at all stages of their transition journey, a new ‘Transition Export Development Guarantee’ has been developed by UKEF, so that oil and gas focused companies with credible transition plans can benefit from UKEF’s working capital support to achieve these plans.

To provide certainty for business and civil society, in advance of implementation on 31 March 2021 the government will publish a detailed, comprehensive, and transparent description of the exemptions underpinning the policy shift. This also ensures that the UK policy shift can provide a guide for those countries considering taking similar action.

The government’s view is that this combination of positive and mitigating actions is an ambitious but balanced package that will enable a secure transition for SMEs, and enhanced export support for firms transitioning their business, particularly larger exporters. We consider that these actions can successfully mitigate the risk of negative impacts from swift and decisive implementation of the policy shift, based on the evidence provided, while maximising the new growth market opportunities.

Summary of responses

The government received over 42,000 written responses, the majority from individuals as part of civil society campaigns. 38 industry responses were received from representative bodies, oil and gas majors, the supply chain and SMEs. 53 civil society responses were received from organisations based in the UK and around the world. In addition, roundtables were held with representatives of the oil and gas industry, and civil society representatives from the UK, other European countries and developing countries.

The global energy transition, and how to further enable an accelerated growth in UK clean energy exports

The government sought information, alongside its engagement with the sector on the North Sea Transition Deal, on how it could further enable an accelerated growth in UK clean energy exports. It sought inputs on how the UK and global energy transition is shaping export opportunities, what barriers domestic energy businesses face in transitioning to these opportunities and the role for government and industry in accessing these new markets.

The UK energy transition

Questions 1-3 asked: what the impacts of the energy transition will be on UK businesses and how to mitigate these impacts; what activities would strengthen the supply chain's ability to transition and how these could be delivered, and the key capability gaps for the UK supply chain in taking advantage of the economic opportunities of the energy transition.

Most industry respondents recognised the need to transition to renewables and low carbon markets. They were positive about the opportunities for UK exporters in these markets but highlighted that the industry was already suffering from the effects of low oil and gas prices and COVID-19, with representative bodies estimating that these challenges could mean up to 30,000 jobs were currently at risk in the supply chain.

Respondents felt it important to have an orderly transition over several years, giving the sector a chance to transition skills and allowing time for markets to develop further and replace the economic value lost from oil and gas. The centrality of this transition was also supported by many civil society respondents, seeing this as an opportunity for the UK to be leading exemplar for the rest of the world, especially ahead of COP26, and pointing to a growing number of countries who have or are considering making policy changes in this direction.

Oil and gas expertise was considered to not only be valuable for delivering net-zero in the UK, but exports of UK expertise and technology could also play an enabling role in other countries as they embarked on their energy transition journey.

Areas for developing UK capabilities were identified by respondents, with the UK supply chain seen as being able to play a critical role in the UK's transition to net zero. Greater UK content in clean energy projects was highlighted as important for building capability and therefore export potential, including in emerging markets such as Carbon Capture Usage and Storage (CCUS), hydrogen, floating offshore wind and wave and tidal.

Many of the technologies and skills required to deliver projects in emerging areas such as CCUS at scale were considered dual-purpose and transferable from oil and gas. Revenues from existing markets where these technologies were deployed were important for scaling up in these new areas.

Representative bodies viewed the North Sea Transition Deal as central to acting on the above challenges and opportunities. To support UK clean energy businesses and those transitioning from oil and gas in export markets there were several roles for government proposed by these bodies, including government subsidies or tax cuts, financial incentives for businesses to make the transition, and support for clean energy business development.

Further proposals from industry respondents included the government enabling investment into existing or new facilities for the development, production, and service of new technologies, promoting the uptake of new technologies and driving increased demand in them, the encouragement of industry wide collaboration and support for the development of key skills in the labour market. Finally, an ongoing dialogue with businesses was promoted, so that there could be a mutual understanding of the state of the energy transition and current issues being faced.

The global energy transition

Questions 4-8 asked: what were considered to be the main export markets and opportunities for new energy technologies for the UK supply chain; the barriers to the UK becoming a global leader in the energy transition; what activities and support were needed by government and the industry to support UK clean energy businesses and those transitioning from oil and gas in export markets; in what parts of the supply chain should government focus its export support for UK clean energy businesses and those transitioning from oil and gas; and where government could add the most value internationally in supporting UK clean energy businesses and those transitioning from oil and gas.

For international markets, there was widespread recognition of significant opportunities in energy transition, renewables and low carbon areas for UK businesses, with green hydrogen, marine renewables, decommissioning, subsea, offshore engineering and services all areas that the UK was identified as having significant expertise and skills in.

Revenue from existing international markets, supported by government, was seen as important in the context of the current industry financial situation. Without this there was a risk of a lack of investment in the development of clean energy technologies and therefore on maintaining jobs in the supply chain.

Several barriers to entry for renewables projects were identified by the industry, including higher upfront capital costs, lower profitability and higher risk around transactions, making government support very important. Respondents consistently identified enhanced UKEF financing options as necessary for overcoming the higher upfront capital expenditure cost and risk of overseas renewables projects, particularly for SMEs and supply chain companies, to drive UK exports in the clean energy space with new products and or preferential terms.

A number of industry respondents noted that identification of “high value opportunities” with credible sponsors, and that the UK wants to support, was important for building out clean energy exports. They saw a role for proactive UK government support in delivering increased clean energy exports through technical or financial means, and as a “facilitator” to bring in wider investment and support.

UK thought leadership was also seen as valuable in promoting the uptake of clean energy globally. As a trusted advisor, the UK could build partnerships with less developed countries to enable long-term trading relationships that supported the uptake of clean energy products and services, including from the UK.

Making the policy shift – timing and impacts

The consultation noted that the growing threat of climate change required that the government took decisive action, and that the government intended to do so as soon as possible, but that the timing of the policy shift could lead to different economic or employment impacts. The government sought stakeholder views on how different implementation options for the policy shift might provide greater international leadership through collective action, time for the industry to adapt to the intended policy shift or point to a requirement for further mitigation measures to support the transition.

The consultation set out four options for implementing the policy shift:

(a) March 2021

(b) June 2021

(c) October 2021

(d) Later than 2021.

Option (d) was noted in the consultation document to require firm evidence of significant economic impacts of the withdrawal of UK government international support.

Relevant businesses: impacts of timing options

Questions 9-14 asked: what the impacts of different timing options for implementing the policy shift would be for relevant businesses, including SMEs and players of different scale in the supply chain; the geographical impacts; how to mitigate perceived impacts; how different timings could affect the ability to do so; and the impact of timing options on company transition plans, including possible adjustments to the proposed approach that would support transition.

Industry respondents, in the majority, advocated for timings later than the options provided in the consultation, often by a number of years, noting unmitigated implementation within the first three timing options would exacerbate current challenges and have the greatest risk of negative consequences. Many respondents noted the current relatively small size of clean energy export opportunities, compared to those in the oil and gas sector, as a rationale for longer timing or phasing of implementation. Renewable and low carbon markets were not yet considered mature enough to fully transition to, and many businesses would not be able to support the same number of jobs or make the same returns in the renewable energy market immediately.

As a consequence, many industry respondents felt that there was a risk that if the shift were to happen too quickly without sufficient mitigations and support, the skills and experience in the UK oil and gas industry would be lost as business moved elsewhere. Ultimately this could hinder UK businesses' ability to make the energy transition in the longer term.

However, a number of responses, particularly from businesses already established in the renewables space, were strongly in favour of early implementation, seeing very significant opportunities and asking for government to do more to support their growing sector and those businesses wishing to transition.

Some respondents noted the current benefits of support in enabling firms to access opportunities. For example, UKEF support could influence the buying decisions of customers, and therefore overseas companies who continued to receive support from their export credit agencies might gain a competitive edge.

Whilst the policy shift was noted as impacting across the supply chain, and to a lesser extent major companies, SMEs were consistently highlighted as needing the greatest support in adapting to the changes. OGUK noted that for SMEs this was particularly in terms of wider trade support. Equally, larger supply chain companies would be most affected by the withdrawal of financing.

Dual purpose or transition projects where renewables were linked with oil and gas, or dual use technologies and services into multiple energy sectors were frequently highlighted, with respondents proposing that this should be carefully reviewed so that companies with these types of technologies and associated services are not disadvantaged.

Scotland, particularly Aberdeen and the surrounding region, was seen as especially affected by the shift.

In some cases, supply chain companies stated that clarity of scope was more important than timing of the policy. Almost all responses called for greater clarity on the exemptions to the policy shift than the consultation document provided, with some arguing that this was the most important issue.

Civil society or non-governmental organisations: impacts of timing options

Questions 15-17 asked: what the impacts of different timing options would be on UK climate leadership, domestically and globally; what opportunities there were for international *collaboration in the lead up to COP26 and how timing of implementation could affect this; and how timing fitted alongside wider work to raise global climate ambition.*

Implementation in March 2021 was considered of vital importance by civil society for the UK's global climate leadership, in a year that included multiple high-profile, leader level moments for the UK to drive ambition on the agenda, in the build up to the UK-hosted G7 summit and COP26. 52 of 53 civil society respondents and over 42,000 campaign responses from individuals favoured the implementation of the policy shift in March 2021, or immediately following the consultation.

Another theme across civil society responses regarded the impact of delaying the implementation of the policy shift further than this date. It was argued that such a delay could impact the credibility of the UK's commitment to provide global leadership on climate change, and result in a missed opportunity to lead the agenda with other countries and groupings that had released ambitious statements on taking action in early 2021. This represented a 'new dynamic' on the issue.

Over 95% of civil society respondents argued that the rapid implementation of this policy would allow the UK to wield significant influence in convincing other countries to commit to similar policies in the run-up to COP26. Through setting a high standard of ambitious climate policies, the UK could give itself maximum time to leverage channels of diplomacy and collaboration to push the international community towards concrete actions.

Many noted within this that by implementing "a gold standard policy" in March 2021, the UK government would be "uniquely positioned to set up a collaboration" with these partners and form a global coalition. Implementing in March 2021 would position the UK to take best advantage of the US Leaders' Climate Summit, G7 and G20 opportunities through 2021 and send a clear message of high expectations for climate commitments in advance of COP26 itself.

Several respondents raised the importance of UK support for clean energy and transition exports in contributing to the protection of domestic employment. There was consensus that engaging with employers and workers organisations to ensure access to green energy jobs for transitioning fossil fuel workers would "support economically disadvantaged regions" and underpin the "'levelling-up' agenda".

It was argued that this policy shift could fit very well alongside other COVID-19 recovery policies, both in the domestic setting and by setting an example of how to achieve a 'green recovery' on the global stage. Many pointed to the assessments of proportionately greater numbers of jobs being associated with export credit agency support for renewables projects than for oil and gas.

Wider points raised in the consultation

Although not directly consulted on through the consultation questions, respondents provided views on several additional matters with regards to the policy shift.

Exemptions

Many respondents provided comments relating to the scope of the policy shift and its related exemptions.

Industry respondents supported allowing solutions that provided a demonstrable positive impact to the reduction of global carbon emissions but were not yet fully carbon-neutral. It was felt that incremental progress on decarbonisation should be valued by government in its support, and decisions on this support should consider the positive impact of a proposed solution, product or service.

Key areas included broader exemptions for gas power, to ensure UK support for a greater number of export projects, and that dual purpose renewables and fossil fuel projects should continue to be allowed. Finally, respondents asserted that projects in the petrochemical space should be considered out of scope of the policy shift.

A number of respondents also proposed 'grandfathering' support that was already under consideration or advocated for a staggered approach to be taken with support for oil phased out before gas.

There was a consistent appeal across the civil society campaign and organisational responses for there to be no exemption at all for gas power – three quarters of organisations and all campaign submissions expressed this view. Further points were made around associated infrastructure, and wider fossil fuel ‘subsidies’. CCUS was the subject of some debate, with campaign responses and many organisations opposing it, and other civil society respondents supporting it given the potential UK export opportunity and emissions reduction potential.

Multiple civil society respondents strongly opposed ‘grandfathering’ of deals, observing that where other government support agencies have adopted this approach, the transactions had often taken years to reach signature, which undermined the spirit and intention of the policy.

CDC Group & Private Infrastructure Development Group (PIDG)

Two thirds of the civil society responses raised points around policy consistency and alignment, most notably in relation to CDC Group PLC and the Private Infrastructure Development Group (PIDG). CDC’s policy was perceived as not being fully aligned with the government’s in possibly allowing CDC to continue making investments in fossil fuels through their private equity funds.

Multilateral Development Banks

It was asserted by civil society respondents that the policy shift should exclude support for new fossil fuel projects proposed by Multilateral Development Banks (MDBs) with any exceptions to this position based on stringent and transparent screening of gas power investments. It was asserted that the policy should go beyond "guiding" and instead "determine" the UK's positions on MDB boards, and extend to other MDB-related processes than voting, e.g., engagement in policy reviews, development and fund replenishments.

Responses also advocated for greater transparency of spend and investment terms.

Government response

The government would like to thank respondents for the feedback and evidence provided in response to this consultation.

We welcome the broad support for the energy transition and note the commitment of all respondents to making it a success for the UK. We have considered the evidence provided carefully regarding the actions required to support an accelerated growth in UK clean energy exports, and in making a decision on the optimum timing and associated support for implementing the policy shift.

Action to support an accelerated growth in UK clean energy exports

The evidence provided by industry respondents, regarding actions to support an accelerated growth in UK clean energy exports, has been used to inform the transformational North Sea Transition Deal, which we have worked closely with the sector to agree. It is an agreement that provides the support of government for continued production on the UK Continental Shelf and policies that enable the delivery of new technologies, in return for equal commitment to protecting jobs and contributing to the energy transition.

The North Sea Transition Deal recognises the challenges facing the oil and gas sector and sets out an ambitious plan for the sector to meet stretching greenhouse gas emission targets whilst government and the sector work together to support the delivery of aspects of the Prime Minister's 10 Point Plan. The Deal will also harness the power of the oil and gas sector and anchor its existing expert supply chain to the UK, particularly in Scotland, supporting tens of thousands of high-quality jobs.

We expect the Deal will deliver significant net benefit to both the UK economy and our action on climate change. This will include supporting approximately 40,000 energy jobs, £14-16bn investment to 2030, a 60 million tonnes cumulative reduction in UK greenhouse gas emissions (including 15 million tonnes from offshore production) by 2030 and support for the regions through a voluntary commitment to 50% UK content in North Sea Transition Deal projects.

Industry has committed through the Deal to early targets for offshore production emissions reductions with 10% reductions by 2025, 25% reductions by 2027 and 50% reductions by 2030.

It is widely recognised that the sector has the expertise and capabilities to deliver on the government's ambitions regarding carbon capture and storage (CCS), particularly the transport and storage of carbon dioxide based on the huge offshore potential from depleted reservoirs and reuse of existing infrastructure, and the hydrogen economy as set out in the Prime Minister's 10 Point Plan and the Energy White Paper.

The Deal will enable the accelerated development of new projects involving significant investment from the sector into new industrial capacity. By 2030, the sector will develop transport and storage infrastructure capturing 10 million tonnes of carbon dioxide per annum and will develop production facilities with capacity for 5GW of clean hydrogen.

New investments by industry announced in the Deal will support the UK's long-established and expert oil and gas supply chain. Supply chain businesses are expected to develop consortia to lead the development of some of these projects, which will keep them anchored to the UK whilst developing the first-mover competitive advantage in the growing global market for these new technologies as we build new trading relationships. This will cement the UK's leadership in new clean energy technologies for the future, creating and sustaining diverse high-quality jobs across the sector.

The funding package announced in the Chancellor's Budget on 3 March 2021 will support jobs and green growth in Scotland, with specific measures announced for the oil and gas industry. This includes a further £5m for the delivery of the Global Underwater Hub in Aberdeen, up to £2m for continued development of industry proposals for the Deal and £27m for the Aberdeen Energy Transition Zone.

As set out in the consultation document, in recognition of the importance of the sector and the role it has to play in supporting low carbon growth in the UK and globally, the government is already taking action to support clean energy exports and in helping the UK oil and gas industry to transition to these new markets.

UK Export Finance (UKEF), the UK government's export credit agency, is proactively developing the breadth of its support for renewable sectors, with £2 billion allocated at Budget 2020 to UKEF's direct lending facility for clean growth and renewable energy projects. The energy transition will have a particular impact on UK businesses in Scotland and the North East, and UKEF has recently recruited renewable energy specialist Export Finance Managers to help businesses in those areas to support clean growth exports as they transition away from fossil fuels to clean energy.

UKEF continues proactively to broaden its support for clean growth, renewables and climate resilience sectors. It recently supported three large-scale windfarms off the coast of Taiwan with over £500 million and provided £47.6 million of support to build two of the largest solar plants in Spain. UKEF also helped support UK exports to a solar powered water purification project providing safe water to 225,000 people across Ghana.

The Department for International Trade (DIT) plays a critical role in realising the government's climate change objectives by promoting clean exports, encouraging investment into the UK's low carbon economy, and supporting international ambitions to accelerate the global energy transition. DIT actively supports the UK renewable energy sector including through a number of ongoing campaigns and is now working to support clean growth across all sectors through a new clean growth unit. Work underway includes mapping export and investment capability across UK clean sectors to support UK businesses export and attract investment. DIT is also using its sector expertise to contribute across government support and policies to ensure support for new clean technologies is underpinned by investment, sustainable supply chain growth and export potential.

DIT is proactively reorienting its work in line with this policy shift. DIT will use its ambitious independent trade policy, including Free Trade Agreements, to expand access to international opportunities in clean energy, removing barriers and working through government-to-government engagement to realise international ambitions. DIT's UK and international regional networks will also divert resource toward the clean energy agenda, expanding government's ability to provide on the ground, direct support to exporters.

Following the implementation of the policy shift, DIT will maintain support to oil and gas exporters where such activity falls within the scope of the narrowly defined exemptions, for example in decommissioning. DIT will also maintain its work to support Foreign Direct Investment into the UK sector, supporting government's ambitions around the Continental Shelf and the forthcoming North Sea Transition Deal.

Through these actions, DIT will actively support UK oil and gas suppliers to find new opportunities in the clean energy space, build cost and quality competitive UK solutions for international opportunities and provide direct support to win these, working closely with UKEF.

Making the policy shift – implementation timing and support

The consultation has provided strong evidence that early implementation will be crucial to ensure the UK maximises the benefit of making the policy shift in its climate leadership, and overall climate change mitigation impact, giving sufficient time ahead of COP26 to develop a coalition of likeminded partners on this agenda to accelerate the clean energy transition globally. This is in line with the stated intention for the government to implement as soon as possible.

The government also firmly acknowledges the evidence provided by industry respondents regarding the need for ongoing support and ensuring that firms that are looking to transition are effectively supported to do so. Evidence was consistently provided by industry as to the businesses most likely to be affected by the policy shift – SMEs and supply chain firms – and the need for clarity and certainty on what was to be implemented and the exemptions to the policy. There was a strong consensus across industry and civil society about the importance of an orderly transition for workers, companies and communities to the clean energy sector. This was both in terms of ensuring the continued prosperity of the sector and key regions that depended on it, and in terms of the UK being able to provide credible global leadership in taking action to accelerate the transition to clean energy.

This has enabled the government to identify mitigating actions that can help to address the key areas that may be most affected in terms of jobs and economic impact, with an implementation date that meets the ambition set out by the Prime Minister and has the greatest climate impact.

We have considered the evidence provided by all respondents carefully. This evidence has reinforced the importance of the UK taking ambitious and decisive action, but in doing so make sure that the skilled and dynamic UK energy industry is effectively supported to transition successfully to clean energy export markets.

Therefore, the government will implement the policy shift on 31 March 2021, but with strong mitigating and supportive actions that respond to the evidence provided through the consultation process.

Based upon the above evidence on relative impacts, the government considers it appropriate to provide a one-year exemption for SMEs from implementation of the policy shift, to ensure the most vulnerable firms are given time to adjust.

Furthermore, to respond to another strong theme in the consultation responses, to ensure that businesses including the supply chain are supported at all stages of their transition journey a new ‘Transition Export Development Guarantee’ has been developed by UKEF, so that oil and gas focused companies with credible transition plans can benefit from its working capital support to achieve these plans.

The Transition EDG is an adaptation of the successful Export Development Guarantee product launched by UKEF in 2020. The Transition EDG is intended to ensure that government support is available to those who are adjusting their business model, but the loan parameters will be more restrictive than those available to support green investments and clean growth. The product will be available for an initial period of three years.

UKEF will guarantee up to 80% of a commercial loan for working capital, capital expenditure or research and development funding. The loan tenor will be up to 1 year availability plus up to 4 years repayment which is shorter than the “standard” EDG. Applicants will need to be able to evidence that they are a UK exporter and demonstrate that they have a credible climate transition plan which is acceptable to HMG and its independent consultant. The loan documentation will include appropriate monitoring and reporting obligations.

The product will incentivise transition by way of variable interest rate depending on whether the company meets pre-agreed milestones. If at any time the company will not be able to meet the milestones/key elements under the transition plan, then the interest rate margin will increase. Following this, the company must enter into discussions with UKEF and the independent consultant in good faith in order to address the issues/provide a remedial plan that is acceptable. If a remedial plan is agreed, then the margin can return to the original level. If the company exceeds the milestones/targets in the transition plan, accelerating their switch to clean energy, then the loan may allow for an interest rate reduction.

To provide certainty for business and civil society, in advance of implementation on 31 March 2021 the government will publish a detailed, comprehensive, and transparent description of the exemptions underpinning the policy shift, so that all stakeholders can move forwards with clarity. This also ensures that the UK policy shift can provide a reference point for those international partners considering taking similar action.

The UK government is also committed to using its leadership to grow new export markets, including for transitioning UK oil and gas businesses. This includes enhanced support for UK exporters to enable them to participate in clean energy projects and programmes worldwide, as referenced in the previous section, play a key part in accelerating the energy sector transformation required to the meet the goals of the Paris Agreement, and benefit from the commercial opportunities from the global transition.

The government's view is that this combination of positive and mitigating actions represents an ambitious but balanced package to enable a secure transition for SMEs, and enhanced export support for firms transitioning their business, particularly larger exporters. We consider that these actions can successfully mitigate the risk of negative impacts from swift and decisive implementation of the policy shift, based on the evidence provided, while maximising the new growth market opportunities.

The UK is taking action to support the global accelerated transition to clean energy through its export support, diplomacy, climate finance and partnerships and dialogues with key countries. As set out in the consultation document, the alignment of government's international policy support will make the UK an even stronger and more credible international partner to the growing number of countries who are seeking to make the transition to a cleaner future, with implementation ensuring this support is consistently focused on clean energy. Through its COP26 and G7 Presidencies, and supported by its international policy levers, the UK will promote an accelerated clean energy transition that increases global market opportunities.

The UK is working through its COP26 Energy Transition Campaign, alongside the UK and Canada co-chaired Powering Past Coal Alliance, to accelerate the global transition from coal to clean energy. Solar and wind are now cheaper than new coal and gas power plants in two thirds of the countries of the world[1], and their cost continues to fall rapidly. The UK wants to strengthen the clean power investment and assistance offer so that clean power is the most attractive option for new power generation for any country. As part of this the UK has launched the Energy Transition Council to bring together the political, financial and technical leaders of the global power sector to work together to help developing countries accelerate the transition from coal to clean power as part of a green economic recovery.

As well as those for UK industry, the global transition also presents economic opportunities for those countries choosing clean energy. The International Renewable Energy Agency (IRENA) found that boosting investment in renewables would increase jobs in the sector to 42 million globally by 2050, nearly four times greater than today.[2] IRENA further estimates that every $1 spent on the energy transition would bring benefits of between $3 and $8. That translates to cleaner air, cheaper power, investment, jobs and opportunity. Clean energy infrastructure is also very labour intensive in the early stages – one model suggests that every $1m in spending generates 7.49 full-time jobs in renewables infrastructure, 7.72 in energy efficiency, but only 2.65 in fossil fuels.[3]

[1] https://about.bnef.com/blog/scale-up-of-solar-and-wind-puts-existing-coal-gas-at-risk/
[2] https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2020/Apr/IRENA_Global_Renewables_Outlook_2020.pdf
[3] Garrett-Peltier, Heidi, 2017. "Green versus brown: Comparing the employment impacts of energy efficiency, renewable energy, and fossil fuels using an input-output model," Economic Modelling, Elsevier, vol. 61(C), pp 439-447. https://ideas.repec.org/a/eee/ecmode/v61y2017icp439-447.html.

Alongside other developed countries, the UK has committed to jointly mobilise $100bn per year in climate finance to developing countries from public and private sources. We announced a doubling of our International Climate Finance to £11.6bn from 2021-2025, that will enable a step-change in the UK's long-term impact and support our COP26 objectives. Through this we will work to ensure that the vast expansion in infrastructure in developing countries is low carbon and climate resilient – using our finance to build capacity and unlock greater flows of private finance towards clean growth, bringing down the costs of a global low carbon transition in the process. This support comprises not just capital but also technical assistance, so that developing and climate vulnerable countries can be supported to grow and develop in recovering from the COVID-19 in a green and resilient way.

The UK will build on the implementation of the policy shift by working with likeminded partners to make similar commitments. It will work to convene a vision for how other countries, public and private financial institutions and multilateral development banks can accelerate the energy transition by collectively shifting international support from all forms of fossil fuels to clean energy. It will look to lead in delivering a secure and orderly transition in the oil and gas sector that is in line with the Paris Agreement. The UK looks forward to developing a platform for such commitments with international partners, including through its G7 and COP26 Presidencies, that can demonstrate the increasing momentum behind this agenda and encourage global action towards its goals.

The UK government is committed to working closely with the Scottish Government, which has also announced that it will end its overseas trade promotion support for purely fossil fuel goods and services in its Vision for Trade. We will aim to align the detail of both policies, as applicable to overseas trade promotion support, to provide consistency and certainty for UK businesses.

Wider points raised in the consultation

Exemptions

The government is grateful for the views expressed regarding the exemptions to the policy shift. Overall, the intention is for there to be only limited, defined circumstances and tightly bound exemptions for when support may be provided. The government intends to provide a greater level of detail that builds on the summary provided in the consultation document, to ensure clarity and transparency for all stakeholders. This will be published in advance of the implementation of the policy shift.

In particular, the government has carefully considered the views on the gas power exemption that forms part of the policy shift. We judge that the current, tightly limited, gas power exemption appears correct and justifiable in striking the right balance. Retaining limited financial support for some gas power projects will enable us to continue to support countries to increase their access to electricity and move away from more carbon-intensive forms of fuel, such as coal. Support will only be approved where it can be demonstrated that the project plays a vital role in helping a country meet its emissions reduction plans in line with the Paris Agreement, and where it does not delay or diminish the transition to renewables.

The priority will be to support renewable energy as the default choice, with this approach enabling us to continue to support developing countries to meet their growing energy needs and increase access to electricity in line with both the Sustainable Development Goals and the Paris Agreement.

CDC Group

The UK, through its commitment to CDC, is supporting companies which are boosting the economies of some of the world's poorest countries. CDC is a public limited company with an independent Board. The FCDO has an arms-length relationship with CDC and is not directly involved in its investment decisions.

The UK Government welcomes CDC's commitment made in its Climate Change Strategy published in July 2020 (which supports the fossil fuel policy) to only make investments in energy programmes when they are aligned with the Paris Agreement and aligned with a country's pathway to net zero emissions by 2050.

CDC published a new fossil fuel policy in December 2020, which will be applied to all new commitments. CDC's policy aligns with the Government's, by excluding fossil fuel investments, except under certain limited circumstances. It excludes future investment in the vast majority of fossil fuel subsectors including coal, oil and upstream gas exploration and production, with limited exceptions that apply to downstream gas power generation and directly associated transmission infrastructure.

A small number of the investment funds to which CDC committed prior to the adoption of its new fossil fuel policy, in December 2020, may make commitments to fossil fuel projects under their existing legal mandates.

The Paris Agreement recognises that emissions in the least developed countries can rise in the short term before falling to reach net zero by 2050 in order to alleviate poverty and to meet other urgent development challenges.

CDC has invested over $1 billion of climate finance in the past three years and has set a target for 30% of all new commitments in 2021 to be to climate finance.

This policy is focused on supporting countries to shift towards sustainable energy provision whilst alleviating poverty and ensuring sustainable development.

Private Infrastructure Development Group

The Private Infrastructure Development Group (PIDG) is a multi-donor funded institution which mobilises private investment into infrastructure in the poorest countries of Sub-Saharan Africa, South Asia and Southeast Asia. PIDG has invested over £600m in renewable energy since 2002 and continue to prioritise renewables as a strategic priority.

PIDG published its new climate change approach in June 2020 and is committed to the goals of the Paris Agreement on Climate Change. In line with the UK's policy on promoting fossil fuels overseas, PIDG will not make any new commitments into energy projects powered by coal or oil and will only invest in gas energy projects that satisfy stringent tests.

The UK's own tests for investing in gas will help inform the specific circumstances in which PIDG can invest in gas energy projects. The UK is by far the largest funder of PIDG, and we will continue to use that influence to shape PIDG's approach on energy investments.

Data on all PIDG investment commitments are available online via its Results Monitoring Database and its annual reports. FCDO also publishes data relating to its funding to PIDG via DevTracker.

Multilateral Development Banks

The government is grateful for the feedback provided and would like to clarify its language and approach. We would like to confirm that we will use the policy shift and its limited exemptions to determine UK voting on projects involving fossil fuels at the MDB boards. Under the new policy, the UK will no longer support fossil fuel projects at the MDBs, with a few limited exemptions. In addition to voting at the MDB boards, the UK policy on fossil fuels will inform our broader policy engagement with the MDBs and other stakeholders.

Next Steps

The government will implement the policy shift on 31 March 2021, and launch its enhanced clean energy transition support including the Transition Export Development Guarantee.

We will build on the implementation of the policy shift by working with likeminded partners to make similar commitments, including through our G7 and COP26 Presidencies.

Annex A: Consultation questions

The global energy transition, and how to further enable an accelerated growth in UK clean energy exports

The UK energy transition:

1. **What do you think the impacts of the energy transition will be on your business and how can these impacts be mitigated?**

2. **What activities would strengthen the supply chain's ability to transition into new energy technologies and how could these be delivered?**

3. **Where are the key capability gaps for the UK supply chain in taking advantage of the economic opportunities of the energy transition?**

The global energy transition:

4. **What do you consider to be the main export markets and opportunities for new energy technologies for the UK supply chain?**

5. **What are the barriers to the UK becoming a global leader in the energy transition?**

6. **What activities are needed by government and the industry to support UK clean energy businesses and those transitioning from oil and gas in export markets?**

7. **In what parts of the supply chain should government focus its export support for UK clean energy businesses and those transitioning from oil and gas?**

8. **Where can government add the most value internationally in supporting UK clean energy businesses and those transitioning from oil and gas?**

Making the policy shift – timing and impacts

If you are a relevant business, what would be the impacts of these different timing options?

9. **If you are an SME, how would the timing of these different options affect you?**

10. **Do you see variable impacts on different parts of the supply chain? If so, what are these?**

11. **Would these options affect players of different scale in the supply chain?**

12. Do you see any possible geographical impacts of different timing options for the policy shift?

13. How could these impacts be mitigated, and how would different timings affect the ability to do so?

14. How do these timings impact on your own transition plans? Is there anything that you would adjust in the proposed approach to support your transition to the fullest degree possible?

If you are a member of a civil society or non-governmental organisation, what would be the impacts of these different timing options?

15. What are the different potential impacts of these options on climate leadership, domestically and globally?

16. What opportunities do you see for international collaboration towards the goals of the policy shift in the lead up to COP26 (November 2021) and how could the timing of the policy shift's implementation affect this?

17. How do you see the timing of the implementation of this policy shift fitting alongside wider work to raise global climate ambition?

Annex B: List of respondents

The total number of respondents was 42,895. They were distributed as follows:

Industry respondents

Aberdeen and Grampian Chamber of Commerce

Aldersgate Group

Association for Renewable Energy and Clean Technology (REA)

Baker Hughes

bp plc

Butler Valves and Fittings Limited

Energy Industries Council (EIC)

Energy Networks Association (ENA)

European Marine Energy Centre Limited (EMEC)

F2Vi

Fairfield Decom Limited

General Electric (GE)

GKB Ventures Ltd

Honeywell UOP

HSP Valves Group Limited

MCS Charitable Foundation and MCS Service Company Ltd

Midrex UK Ltd

MUFG

OGTC Ltd

OGUK

Opportunity North East

Orascom Construction Group

Paralloy Limited

Premier Oil plc

Rockhopper Exploration Plc

Royal Dutch Shell plc

Royal IHC Limited

Sealion Power

Siemens Energy Limited

Subsea 7

Subsea UK

Transvac Systems Ltd

UK Chamber of Shipping

Volans

Winch Energy Limited

Yinson Production

Two further respondents provided information in confidence.

Civil society respondents

Over 42,000 responses from individuals, including via:

38 Degrees

Friends of the Earth

Global Justice Now

Oil Change International

Responses from organisations:

Above Ground

Afrikagrupperna

Africa Institute for Energy Governance

The B Team

Bexhill and Hastings Global Justice Now Group

Both ENDS

Bretton Woods Project

Bright Blue

Campaign against Climate Change

Catholic Agency for Overseas Development (CAFOD)

Christian Aid

ClientEarth

The Corner House

Dumfries and Galloway Climate Group

The Elders

Environment Governance Institute

Environmental Rights Action / Friends of the Earth, Nigeria

Extinction Rebellion

Faith for the Climate

Friends of the Earth England, Wales & Northern Ireland

Friends of the Earth, France

Friends of the Earth, International

Friends of the Earth, Sweden

Friends of the Earth, United States

Germanwatch, NewClimate Institute and the World Resources Institute

Global Justice Now

Global Justice Now (South East London)

Global Witness

Green Alliance

Greenpeace UK

Humshaugh Net Zero

Jubilee Australia Research Centre

Justiça Ambiental (Friends of the Earth Mozambique)

Medact

Milieudefensie (Friends of the Earth, Netherlands)

Natural Resources Defence Council

Oil Change International

Oil Refinery Residents Association

People and Nature

Possible

Quakers in Britain

Queen Mary Global Policy Institute

Royal Society for the Protection of Birds

Recourse

Strategic Youth Network for Development

Students for Global Health UK

Tearfund

urgewald

University of Cambridge - Centre for the Study of Existential Risk & Centre for Climate Repair

University of Edinburgh, School of Law

VedvarendeEnergi (Denmark) and Swedwatch (Sweden)

World Wildlife Foundation

This government response is available from: https://www.gov.uk/government/consultations/aligning-uk-international-support-for-the-clean-energy-transition

If you need a version of this document in a more accessible format, please email enquiries@beis.gov.uk. Please tell us what format you need. It will help us if you say what assistive technology you use.