



Department for
Business, Energy
& Industrial Strategy

Aligning UK international support for the clean energy transition

Guidance

March 2021



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Overview

This guidance document sets out the detail of the new policy on UK government support for the fossil fuel energy sector overseas, effective from 31 March 2021.

Scope

Under this policy the UK government will no longer provide new direct financial or promotional support for the fossil fuel energy sector overseas¹, other than in the limited circumstances outlined in this document, and align its support to enable clean energy exports.

This policy applies to any new Official Development Assistance (ODA), investment, financial and trade promotion activity overseas, including support provided by UK Export Finance.

The policy will also determine the UK's voting position at the boards of Multilateral Development Banks and be used to influence the investment policies of other development financial institutions (such as CDC Group PLC and the Private Infrastructure Development Group) that receive UK government funding.

This guidance defines the fossil fuel energy sector overseas as the extraction, production, transportation, refining and marketing of crude oil, natural gas or thermal coal, as well as any fossil-fuel fired power plants.

Exemptions

This document describes how the policy will be implemented:

Part A describes the limited exemptions to the policy – through which the government will continue to support:

1. Energy or emissions efficiency, health, safety, social and environmental improvements, or energy market reform.
2. Decommissioning of existing fossil fuel energy assets.
3. Gas power and directly related infrastructure, and the conditions for doing so.
4. Stand-alone generators and Liquid Petroleum Gas for cooking and heating.
5. Carbon Capture and Storage (CCS), or Carbon Capture Usage and Storage (CCUS) projects.

¹ With respect to the Overseas Territories, considered part of the UK family, the UK government will adhere to the policy, whilst keeping the potential need for flexibility with respect to power generation under review.

Part B provides guidance as to how this policy will be implemented in relation to:

1. The provision of wider Government support, including diplomatic and trade promotion support.
2. Indirect investments, including treatment of working capital schemes.

Part C provides a non-exclusive list of example areas that are out of scope of this policy and for which the UK government's international support is not affected. This includes the transport sector, the defence and security sector, and sectors that use fossil fuels as industrial inputs such as the steel and petrochemical sectors.

The overall policy, and the exemptions to the policy, will be kept under review as part of our evaluation of the policy's impact. As part of our ongoing consideration of the policy's impact for the UK's national security objectives, we will keep the need for specific national security exemptions under review.

Part A: Policy Exemptions

1. Technical assistance and capital support

a) Technical or regulatory assistance that supports energy or emissions efficiency, health, safety, social and environmental standards

Providing technical or regulatory assistance that supports energy or emissions efficiency, health, safety, social and environmental standards.

Examples of allowable activities include advice from the Health and Safety Executive to an oil company on how to improve the health and safety of their operations, Oil and Gas Authority (OGA) or UK government engagement on financial transparency and governance.

Technical assistance support for CCS/CCUS is exempt with reference to conditions in A5.

b) Capital support that improves energy or emissions efficiency, health, safety, social and environmental standards

Providing capital support for exports that improve energy or emissions efficiency, health, safety, social and environmental standards in the operation of existing assets on the condition that the investments can be demonstrated to not increase the economic operational life of an asset that would otherwise be retired.

Increasing emissions efficiency, health, safety, social and environmental standards has obvious immediate benefits to reduce emissions and reduce social and environmental impacts.

Allowed: Capital investment, maintenance expenditure, other goods on case-by-case basis.

Allowable technologies might include:

- Technologies that increase safety standards by removing/minimising the need for human presence in hazardous situations. For example, Remotely Operated Underwater Vehicle/Autonomous Underwater Vehicle (ROVs/AUVs); Other remote/driverless operations equipment and solutions
- Fire protection systems
- Hazardous area protection equipment
- CO2 abatement technologies including CCUS, with reference to conditions in A5.

This list is not exhaustive and other technologies may be considered. The relevant department will make a judgement on a case-by-case basis in line with the intention of the policy.

c) Technical or regulatory assistance to countries on energy market reform

Engagement with countries to help them accelerate their low carbon transition, deliver a more ambitious Paris aligned Nationally Determined Contributions (NDCs) and better integrate

climate considerations into core energy markets planning, including an assessment of long-term financial viability (e.g. exposure to stranded assets and/or price risks).

Here, the presumption should always be against support for unabated fossil fuel projects unless there is no cost-effective low carbon alternative at both project and system level. Advice on the role of gas as a transition fuel may only be considered where this is considered appropriate in the specific national context e.g. where coal to gas switching might be needed to support rapid decarbonisation, with reference to exemption A3a for gas power.

2. Support for decommissioning of existing fossil fuel energy assets

Support for the planning and implementation of decommissioning of fossil fuel energy assets, or their conversion into use for non-fossil fuel energy infrastructure.

Not Allowed: Support for the conversion of an existing fossil fuel asset (e.g. a gas storage site) into another fossil fuel asset (e.g. an Liquefied Natural Gas (LNG) import terminal).

3. Gas fired power generation and directly related infrastructure

a) Support for unabated gas fired power generation

Support for unabated gas fired power generation is conditional on:

- a country having a credible NDC and long-term decarbonisation pathway to net zero by 2050 in line with the Paris Agreement;
- that support does not delay or diminish the transition to renewables;
- that the risk of the asset being stranded has been assessed and managed;
- that the project intends to follow best practice in environmental and social standards, including measures to minimise methane leakage.

Exceptional support will only be allowed if all of these conditions are demonstrated.

If the role of gas is not established in an NDC and long-term decarbonisation pathway to net zero by 2050, it will need to be demonstrated that: the project cannot viably be replaced by renewable energy sources; that it contributes to domestic energy security; and that it is consistent with a realistic transition pathway to net zero by 2050 at the latest, including demonstrating that mitigation measures have been considered, preferably at asset level.

Allowed (example): Support for gas power where this supports decommissioning of coal, alongside a rapid increase in renewables, and where renewables cannot meet total demand immediately. This would help a country onto a science-based net zero pathway.

Not Allowed: Support for gas production, distribution and power generation into the global market.

b) Limited support for directly related infrastructure

Limited support for unabated gas transportation, gas transmission, gas storage and gas distribution infrastructure, only in cases needed to support unabated gas fired power generation as specified in the above exemption (A3a).

Not Allowed: Unabated gas production and gas distribution infrastructure to the global market. Therefore, feedstock infrastructure needs to be directly tied to use of gas in a domestic power plant as specified in the above exemption, not tied to LNG terminals for export.

For clarity, support for all fossil fuel related transportation, transmission, storage and distribution infrastructure, unless this exemption is met, is not allowed. Wider multipurpose transportation infrastructure (such as ports, roads), whose primary use is fossil fuel related, is not allowed. To meet out of scope criteria, the primary use must not be intended for fossil fuels (with reference to out of scope entry Cg).

4. Support for stand-alone generators and Liquid Petroleum Gas for cooking and heating

a) Support for stand-alone diesel or gas generators

The following has to be demonstrated for this exemption to apply:

- For diesel or gas generators, both when used as the main source of power or as a back-up source, demonstrating that the option of using a renewables-powered generator or mini-grid is not technically or commercially feasible.
- For hybrid (renewables/fossil fuels) mini-grids, a renewable-only grid has been proven not to offer sufficient reliability or cost feasibility in the context of the proposed application, and the cleanest feasible fossil fuel option has been used.
- For hybrid mini-grids, the risk of ramping up the use of the non-renewable part to respond to increased demand is being managed.

Stand-alone generators can be the only means of providing power in areas where no mains grid connection is available or where grid power is unreliable, especially in humanitarian contexts. Mini-grids are the best alternative but are much slower to implement, have high capital costs, and the skills required for operation might act as a barrier.

Allowed: (example) Diesel generators in emergency response settings, e.g. Sierra Leone for Ebola health support, where renewables are not viable.

Not Allowed: Stand-alone coal generators, oil power plants; gas power plants (Ref: exemption A3a).

b) Support for Liquid Petroleum Gas (LPG) for cooking and heating

LPG has a key role to play in providing access to clean cooking and heating, given its time saving and health advantages and relatively low emissions when compared with solid biomass, coal and oil, until the transition to renewable fuels is feasible.

5. Support for Carbon Capture and Storage (CCS) or Carbon Capture Usage and Storage (CCUS) projects in the gas power sector

Support will only be allowed for Carbon Capture and Storage (CCS) or Carbon Capture Usage and Storage (CCUS) projects in the gas power sector, and only where projects will significantly reduce emissions over the lifetime of the asset and support transition pathways to clean energy.

CCUS with enhanced oil recovery (EOR), enhanced gas recovery (EGR), coal bed methane (CBM) or equivalent technology will not be allowed.

Part B: Guidance on how the policy will apply in specific areas

1. Wider government support

a) Diplomatic and market access support

Diplomatic and market access support will be:

- **pro-actively offered** to energy companies when promoting their energy transition plans and renewable energy offer
- provided only on a **reactive and restricted** basis for fossil fuel activity covered by the scope of the policy.

The UK government will **no longer conduct proactive lobbying** and/or facilitation of engagement with foreign governments if that support promotes the production or use of fossil fuels – including lobbying to grant companies authorisation to explore for, produce or sell fossil fuels.

The UK government **will continue** to provide support to UK oil and gas companies to help them navigate in-country processes and help them impartially to resolve disputes with foreign governments and regulators over discriminatory treatment and unfair application of competition rules or trade agreements.

The UK government will also remain proactively involved in assisting the resolution of barriers to promoting the export of low-carbon technologies, including for CCUS (with reference to conditions in A5), battery energy storage systems, renewable energy, bio-gas and hydrogen, and other technologies that will reduce the consumption of fossil fuels in energy production.

This also applies to advocacy to help resolve market barriers to technologies that can help reduce emissions on existing projects or technical support for host governments towards low-carbon energy (e.g. decommissioning, energy consultancy, technology to reduce flaring and venting, leak detection, vapour recovery units, electrification).

b) Government engagement focused on renewables / transition

Where UK operators or companies, whose primary business is within the activities that are in scope of this policy, have publicly committed to decarbonisation plans, more general support can be provided for that operator or company, or sponsorship allowed for government events, so long as the focus is on energy transition, low carbon or renewables activity.

This will include participation in supplier fairs targeted at projects/exports outside of the scope of this policy.

2. Indirect support

a) Application to fungible activities

This policy will apply to all direct and indirect support for which it is deemed possible to specify where funds will ultimately be deployed or how profits will be reinvested.

For financially intermediated transactions, including indirect equity investments, debt to financial institutions or corporate loans (or other fungible finance) for which it might not be possible to strictly specify where funds will ultimately be deployed or how profits will be reinvested, we will seek credible evidence that the recipients of the investments (e.g. commercial financial institutions, utilities, private or state-owned companies) are working towards aligning future activities and portfolios with the Paris Agreement.

Where applicable, support should be restricted to circumstances where the applicant can credibly demonstrate that the funds requested are conducive to the low carbon transition process and the future growth of their 'clean growth' capability, and will be used to that end.

b) Treatment of non-ODA working capital schemes

Application to non-ODA Support for working capital or other fungible financing support where it is not possible to strictly determine where the funds will ultimately be deployed, and are international in focus (i.e. designed to support UK exporters):

1. For any company, a Revenue Threshold Test at the point of application for support will be applied to determine whether support is within scope of this policy.
2. If the support is within scope of this policy, any company applying for support should demonstrate:
 - i. a commitment to increase revenue in sectors out of scope of this policy;
 - ii. that it is actively transitioning away from fossil fuels; and
 - iii. have a clear commitment to align future activities with the Paris Agreement.

Revenue Threshold Test

The Revenue Threshold Test at the point of application for support will be determined using the most recent set of audited company accounts.

Calculation: 'In Scope'² Total Revenue / Total Revenue = (x).

Where (x) is >25% in 2021 the company does not meet the threshold test.

The following table demonstrates how the Revenue Threshold Test will determine the type of support a company can apply for. The value of (x) will be reduced over time as shown.

² 'In scope' Total Revenue includes all revenue from fossil fuel activities overseas, unless covered by an exemption.

Historic 'In scope' revenue FY 2021	Historic 'In scope' revenue FY 2022	Historic 'In scope' revenue FY 2023	Historic 'In scope' revenue FY 2024 onwards	How the policy applies
< 10%	< 8%	< 5%	<5%	Company is out of scope of this policy.
10-25%	8-20%	5-15%	5-10%	Company is in scope of this policy and must demonstrate (2) above in order to apply for support.
>25%	>20%	>15%	>10%	Company is in scope of this policy – support cannot be provided other than pursuant to schemes which incentivise transition.

For working capital financing decisions which are delegated to intermediary financial institutions, the same requirements will apply but will be undertaken by the institutions according to pre-agreed criteria.

With regards to (2) above, the Loan documents/agreements will contain specific requirements to monitor company progress against commitments made to actively transitioning away from fossil fuels in alignment with the Paris Agreement.

c) Transition financing instruments

Non-ODA support for working capital schemes which incentivise transition

If a company is not eligible for support under B2b it may apply for support for working capital schemes which incentivise transition, if it can demonstrate it has a credible climate Transition Plan which is acceptable to HMG and its Independent Consultant. The application process will include a full assessment of the Transition Plan and written confirmations from senior management in relation to the Plan. Key elements of the Transition Plan will be identified before entering into the loan agreement which will then be tested during the tenor.

If the company will not be able to meet the milestones or key elements under the transition plan, then the interest rate margin will increase. Following this, the company must enter into discussions with 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, then the loan may allow for an interest rate reduction.

Part C: Areas out of scope of this policy

Areas that are out of scope of this policy, and for which the UK government's international support is not affected.

This list of “out of scope” activities is not comprehensive. There are many activities that involve fossil fuels – e.g. supporting any car or air travel from A to B - that are clearly not in scope. This list is therefore indicative, but we have aimed to include activities that are considered more likely to create doubts.

a) Electricity (power) or heat (i.e. hot air or water) transmission and distribution networks, regardless of the fuel used for their generation.

Electricity and heat grid infrastructure networks are fundamental to attracting a greater proportion of renewable energy generation.

b) Industries that need high temperatures that can only be achieved through burning fossil fuels (e.g. cement, ceramics, steel, glass, paper).

There is currently no commercially viable alternative to using fossil fuels to reach the temperatures required by these industries, at the scale required and especially in a development context. It should be demonstrated that the cleanest and most efficient technology is being used, and that provisions for allowing future technological switch to lower-emission options are considered, such as fuel-switching and inclusion of CCUS.

c) Industries that use hydrocarbons as feedstock but that do not produce fuels (e.g. the steel, detergents, paint and petrochemical sector).

Hydrocarbons are the primary material used for production in these industries and cannot currently be replaced. However, renewable energy could be encouraged in the parts of the production chain where it is possible to do so e.g. to power the plant. For petrochemicals, there must be a clear separation between any investment in an oil refinery that would be in scope of the policy.

d) Support for economic activities outside of heavy industries

This could include support for commercial activities, manufacturing or farms that use fossil fuels as a source of energy (captive fossil fuel energy), whilst ensuring that they are encouraged to transition to renewables. Where the investment or support is associated with an increase in energy use, that additional use should be met by renewables unless it is shown that this would be technically or commercially unviable.

e) Use of CCUS to decarbonise industrial processing (non-fossil fuel energy sector uses)

There are instances in which we may want to support the use of CCUS or other equivalent abatement technologies to achieve deep decarbonisation in processing or production in the non-fossil fuel energy sector.

f) CCUS: CO2 transport and storage

Support for investment in CO2 transportation or storage projects that would provide abatement for a number of emission sources i.e. not specifically dedicated to fossil fuel power sources, including the re-use of oil and gas infrastructure.

g) Transport sector, including rail, ship, vehicle and aircraft manufacturing, fleets and supporting infrastructure.

Transport that uses non-renewable forms of energy will continue to be essential for a number of years. Electric vehicles should be preferred where possible in terms of electricity availability, reliability, or access. This includes support for infrastructure investment in roads, airports and ports whose primary scope is non-fossil fuel transport but in which it may not be physically, legally or economically possible or viable to exclude any fossil fuel transportation using that infrastructure.

Activities that improve the energy efficiency and reduce the carbon-intensity of existing non-fossil fuel transport infrastructure are also out of scope.

h) Support to fossil fuel sectors to enable a secure transition of workers and fossil fuel dependent communities (e.g. social dialogue, skills and retraining, bridging loans)

General skills training not in scope. Also out of scope: projects which engage existing workforce within the fossil fuels sector – including working with oil & gas companies and trade unions – to deliver training and support to workers and communities to facilitate a secure transition to non-fossil fuel sectors.

i) Health and safety training

The promotion of safe working practices is out of scope.

j) Methane capture

Support for the production and use of materials and absorbents used to capture methane.

k) Methane detection

Satellite networks that monitor methane emissions of existing assets.

l) Support for blending of ethanol/biofuels in petroleum products

Where the production and use of ethanol provides incentives for the development of more climate friendly fuels or supports changes in a country's policies on biofuels.

m) Defence

Support for defence/security sector applications. This might include air-to-air refuelling of aircraft and at-sea refuelling capabilities.

Not Allowed: projects that are exclusively within the energy production sector i.e. exploration of fossil fuels and development of upstream, midstream, downstream projects and captive power generation e.g. as part of a defence package.

n) Non oil & gas specific products and services

There are many hydrocarbon-based products, services and technologies with non-fuel applications that can continue to be supported, including specialty products such as waxes, lubricants and white oils.

o) Direct use of hydrocarbons as climate friendly alternatives to hydrofluorocarbons (HFCs) that are being phased down under the Kigali Amendment to the Montreal Protocol

Support for equipment charged with hydrocarbons as alternatives to hydrofluorocarbons (HFCs), as refrigerant gases, foam blowing agents or other uses, where it significantly lowers the Global Warming Potential of the equipment and/or helps meet a country's Montreal Protocol obligations.

For example, the use of propane refrigerants within air conditioning equipment or the use of cyclopentane as a foam blowing agent.

The related consultation and government response are available from:
www.gov.uk/government/consultations/aligning-uk-international-support-for-the-clean-energy-transition

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