AK EUROPA

POLICY BRIEF

1 / 2025– Economy

Aligning Export Finance with the Paris Climate Agreement: Towards a Two-Pillar Approach

Key Points

- The European Green Deal and the European Climate Law have established targets for **net-zero emissions in alignment with the Paris Agreement**. Export finance is a powerful tool that can either accelerate the global transition to a net-zero economy or perpetuate reliance on carbon-intensive industries.
- The 2022 Council Conclusion on Export Credits commits EU members to "science-based approaches" to **phasing out public support to the fossil fuel sector** and underscores the importance of a "shift in investment patterns towards climate-neutral, climate-resilient projects" in export finance.
- A **new study** commissioned by AK Wien reveals a fragmented landscape of implementation of this Council decision across member states both regarding phase-out timelines and the scope of exemptions.
- It advocates a **two-pillar approach** consisting of (i) a rapid fossil phase-out in conjunction with (ii) a comprehensive net-zero approach based on GHG accounting and carbon-lock-in assessment. EU members wishing to align their export finance can draw on an emerging body of international standards, frameworks and tools – including the Partnership for Carbon Accounting Financials (PCAF) and the EU's Sustainable Finance Framework. In addition, several ECAs and public banks across Europe have developed climate-related policies and due diligence processes that can serve as guidance.
- Two countries which have been innovative in climate-friendly export finance are Germany and Sweden, both with a strong export base. Germany not only categorizes export projects based on their compatibility with climate goals but also ensures greenhouse gas (GHG) accounting of guarantees. Sweden has embraced **export sustainability** in its national initiative "Fossil Free Sweden". Austria, on the other hand, provides a case of relative lenience regarding the fossil phase-out and Paris Alignment.

Background

Export finance refers to the financial services and products provided to facilitate international trade. A key player in this domain is the Export Credit Agency (ECA), a government or quasi-governmental institution that offers financial assistance in the form of guarantees, insurance, and loans to domestic companies involved in international trade. **The primary role of ECAs is to mitigate the commercial and political risks associated with exporting**. They typically operate under mandates that aim to support national economic growth, job creation, and the advancement of strategic sectors.

Given the urgency of the climate crisis, as highlighted by the Intergovernmental Panel on Climate Change (IPCC), there is increasing **global pressure on governments and ECAs to align their activities with the Paris Agreement**. This alignment is essential for limiting dangerous global warming to 1.5°C, as outlined by the International Energy Agency (IEA), which asserts that new fossil fuel projects must be avoided to meet these targets. EU member states are at a critical juncture where their export credit policies must pivot quickly and decisively towards climate sustainability.

Within the European Union, the regulatory framework for export finance has become a battleground for climate policy implementation in recent years (see also Schlögl et al. 2024). **The European Green Deal and the European Climate Law establish ambitious targets** for net-zero emissions by 2050, with interim goals for significant reductions by 2030 and 2040. The European **Council conclusion on Export Credits** from March 2022 represents an important moment in the EU's effort to address the climate implications of export finance. The Conclusion explicitly calls on member states to adopt science-based deadlines for phasing out fossil fuel support in export credits, aligning these efforts with the Paris Agreement's 1.5°C target. It urges the cessation of financial support for projects in coal, oil, and natural gas sectors, except in limited and clearly defined circumstances. Moreover, it emphasizes transparency, accountability, and the need for member states to determine and publish these phase-out timelines by the end of 2023. However, the reality of implementation across member states reveals a fragmented landscape of ambition and action.

Main Findings

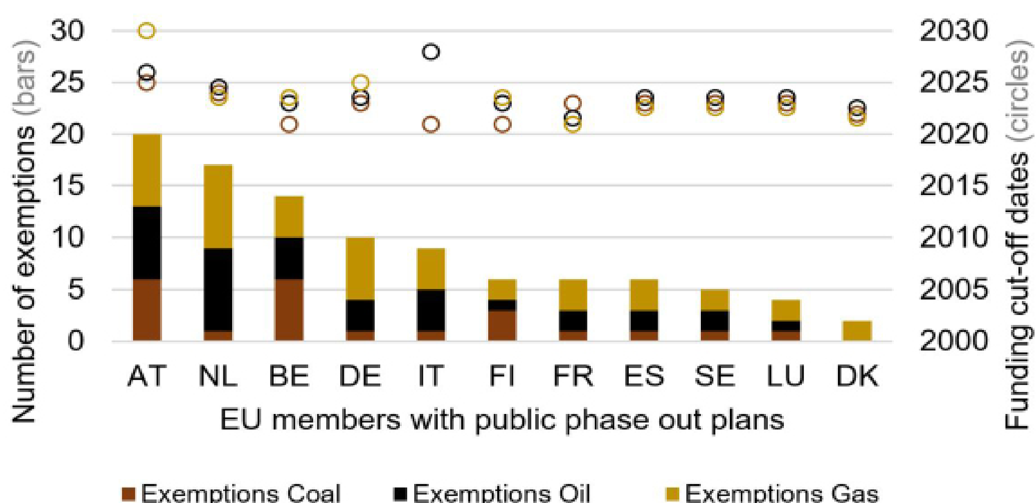
A stocktaking of implementation vis-à-vis the commitments made by EU member states in 2022 reveals that there has been **mixed progress** so far. Western European countries have generally established timely phase-out policies. Some countries, such as Bulgaria, Estonia, Hungary, Lithuania, Poland, and Portugal, have not presented an exit strategy but claim to have no national fossil energy support. Others, including Croatia, the Czech Republic, Greece and Latvia have neither published exit strategies nor otherwise indicated if or when to end support to fossils-sector projects. Compared to European peers with public policies in place, Austria, Slovakia, Slovenia and Romania have adopted lenient timelines for the phase-out. Italy presents a special case, planning to phase out oil by 2028 (distribution) and still undecided on a specific date for gas. Germany permits gas projects until 2025 in industrialized countries and 2029 in developing countries.

It is worth noting that Member states have introduced notable **exemptions to their phase-out plans**. For instance, Austria and Belgium envisage comprehensive exemptions not even excluding the coal sector. These encompass: national energy and resource security, geostrategic interests, carbon capture technologies, dual usage applications, metallurgical coal refining, safety, health, social and environmental performance improvements (without extending lifespan) and decommissioning or conversion to renewables. While the latter are generally uncontroversial, the former can present significant loopholes. Of particular concern is the lack of clarity surrounding who determines overriding geostrategic or energy security interests and under what circumstances. Further, while carbon capture and green hydrogen may contribute to decarbonization efforts, these emerging technologies become problematic when project financing is permitted based on the premise of infrastructure 'readiness' for dual usage alone.

Nordic EU countries and Germany provide instructive **examples of ambitious policy implementation**. These countries have also adopted advanced frameworks for monitoring and reporting the GHG footprint of ECA-supported projects. Sweden's "Fossil Free Sweden" initiative combines a national commitment to fossil-free systems with an emphasis on promoting the export of sustainable technologies. The country is piloting a Paris Assessment methodology in its export credit due diligence. What Nordics tend to have in common are simple phase-out strategies without many "if's and when's" and thus little room for interpretation.

Germany deviates from this with a relatively complex phase-out strategy which aims to strike political balance. The country started a **consultation** phase in mid-2023 which included information provision and primarily addressed trade associations, unions, and NGOs. The draft sector guidelines were then coordinated and approved by an Inter-ministerial Committee. The resulting guidelines ('Klimapolitische Sektorleitlinien für Exportkreditgarantien') aim to promote innovation and climate-friendly technologies, as well as support the export of green technologies abroad. The sector guidelines define three categories: (i) a green category for high-priority (green) technologies, (ii) a white category for products that do not make a significant contribution to the Paris climate goals, and (iii) a red category for products that can no longer be covered by export credit guarantees. For green category transactions, it is planned, among other things, to increase the coverage ratio for financial credit cover for economic and political risks. In the energy sector, the sector guidelines set rules for phasing out fossil fuel subsidies.

The fossil phase out in export promotion: EU peers in comparison



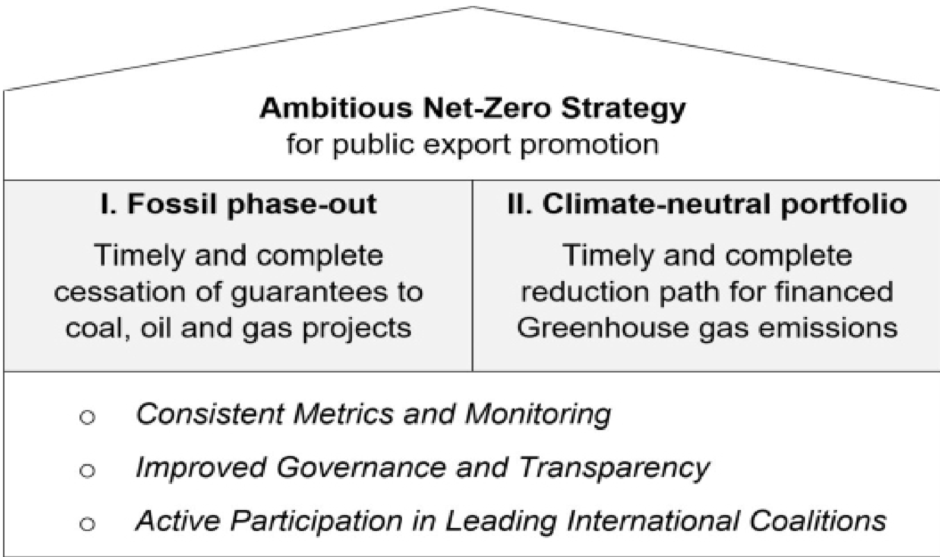
There are relatively **narrowly defined exceptions** under which an export credit guarantee may still be granted, mainly concerning the gas sector. In the industrial sector, the production of iron, steel, and aluminium is oriented as far as possible towards the EU Taxonomy Regulation both with regard to **positive and negative incentives**. In the transport sector, international emission standards are implemented in civil shipping; in this sector, as well as in civil aviation, the switch to climate-friendly drive systems is particularly supported. Alongside these guidelines, Germany has devised a methodology for **quantifying the GHG emissions** of projects covered by export credit guarantees, known as Hermes guarantees, and for investment guarantees provided by PwC (for details, see Euler Hermes, 2024; PwC, 2024). The methodologies are part of a national strategy to align export credit portfolios with the 1.5°C Paris goal and are based on the Partnership for Carbon Accounting Financials (PCAF) standards, modified for application to Germany's export credit portfolio (PCAF, 2024).

There are also **cautionary cases from the middle ground** of those EU members who are generally committed to the phase-out but leave wiggle room or operate in methodological 'blind flight'. Austria's approach to export finance underscores the challenges of aligning national strategies with EU-wide climate commitments. The country's strategy lacks a clear scientific basis for its deadlines and allows significant exemptions. The exit plan, articulated in its 2023 Sustainability Strategy for Export Promotion, highlights a dual mandate of enhancing trade competitiveness while supporting environmental and climate goals. This includes the development of green finance instruments such as the "Exportinvest Green Energy" program, which provides preferential financing for renewable energy projects.

However, Austria's overall trajectory raises concerns. Between 2019 and 2023, Austria still committed EUR 325 million to fossil fuel projects in countries such as Egypt, Canada, and Saudi Arabia. The **phase-out deadlines** set by Austria—2025 for coal, 2026 for oil, and 2030 for natural gas—are among the slowest in the EU. This timeline appears disconnected from Austria's national goal of climate neutrality by 2040 and the broader EU objective of a reduction in emissions of 90% by that time. Further, Austria has **no credible instruments** to get its portfolio of officially supported export projects towards a **net zero GHG footprint**. Austria's absence from international initiatives like E3F further limits its ability to participate in and benefit from shared learning and best practices among peers. In sum, the steps Austria has taken so far to align its export portfolio with the Paris Agreement are laudable, but remain insufficient.

The Study

The full study is available at: https://emedien.arbeiterkammer.at/resolver?urn=urn:nbn:at:at-akw:g-7045151



Demands

From a Reactive to a Proactive Stance

While the 2022 EU Council conclusion calls for collective progress, the lack of binding mechanisms leaves member states with considerable discretion. This has resulted in a fragmented approach, where some member states take proactive measures while others lag behind or engage in politics of climate delay.

- The next step towards sustainable export finance for EU member states who have not already done so is to adopt a **two-pillar approach**: first, ensure that **fossil exit** plans are timely and complete and, second, devise an ambitious, comprehensive and science-based **net-zero approach**, which fully aligns the remaining officially supported project portfolio with the Paris Agreement drawing on GHG accounting methods.

- Members should also adopt an anticipatory role in due diligence by not only considering emissions but also the creation of dependencies on fossil fuels as well (see also Seto et al. (2016) for approaches to assessing **carbon lock-in risk**). Systematic lock-in tests can help ensure that certain technologies—such as those used for transport or heating buildings—do not perpetuate the long-term use of fossil fuels. Fully phasing out public support to fossil-sector and GHG-intensive export projects and those that lock-in fossil practices in a timely and comprehensive manner is an important political and economic signal both towards Europe's export-oriented industry and to other countries across the globe.

- The EU's credibility as a global leader in climate policy depends on its ability to assist member states in aligning export finance systems with its net-zero ambitions. The 2022 Council conclusion provided a good initial impulse for action, emphasizing the urgency of phasing out fossil fuel support and adopting transparent, science-based strategies. However, the reality of exit plans shows that EU commitments must be backed by **coordinated implementation and robust oversight**.

- In the near future, member states in collaboration with the Commission should play a more active role in that regard by introducing **binding requirements for fully phasing out** fossil fuel support, mandating GHG accounting for ECA-supported projects, and standardizing reporting practices. Alliances like E3F are very welcome initiatives that build peer pressure and ensure a basic level of transparency but cannot replace coordination at EU level.

- **Enhanced technical support and capacity building** for lagging member states could also help bridge the gap between ambition and implementation. Encouraging countries to adopt best practices, including project categorization and transparency measures, would be a step toward aligning export finance system with EU objectives. By fostering both greater coherence and ambition across member states, the Union can ensure that export finance becomes a driver of, rather than a barrier to, the global transition to a sustainable, net-zero economy

Literature

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The Austrian Federal Chamber of Labour (AK) is the legal body which represents the interests of approximately 4 million employees and consumers in Austria. It represents its members on all social, educational, economic and consumer policy-related issues at a national level and in Brussels at an EU level.