BRIEFING
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South Korea's international public finance continues to block a just energy transition

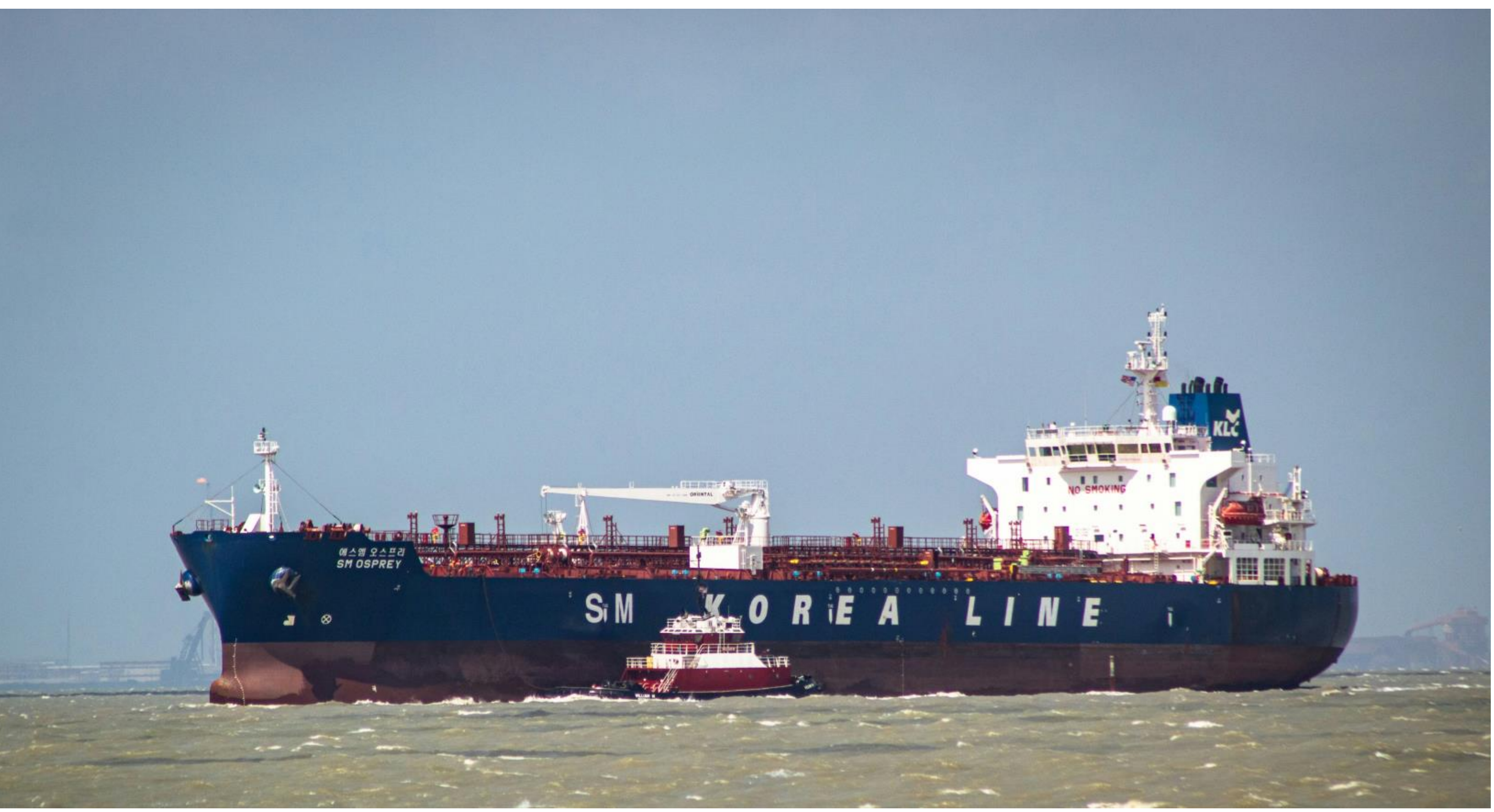


Photo: Joshua J Cotten

Briefing: South Korea's international public finance continues to block a just energy transition

The science is clear. To limit warming to 1.5°C and avoid the worst impacts, more than 60% of already-developed fossil fuel reserves must stay in the ground.[1] This means **any new investment in oil, gas, or coal infrastructure will either worsen the climate crisis, increase the scale of stranded assets that must be shut down early, or both.** This also includes fossil-fuel-based technologies marketed as climate solutions, including carbon capture and storage (CCS), fossil-based hydrogen, and ammonia co-firing.

Despite this, **wealthy governments continue to pour more fuel on the fire, using public money to fund continued fossil fuel expansion.** South Korea stands out as one of the world's largest public financiers of fossil fuel projects, providing $30 billion between 2020 and 2022.

This briefing examines South Korea's international public finance for energy[2], with a focus on their finance between 2020 and 2022. It uses data from Oil Change International's Public Finance for Energy Database.

Overall we find:

- **South Korea is one the world's largest providers of international public finance for fossil fuels**, providing on average USD 10 billion annually between 2020 and 2022.
    - Among the G20, Korea ranks second behind Canada for its fossil fuel finance based on 2020 to 2022 finance. At the end of 2022 Canada, as a signatory to the Clean Energy Transition Partnership (CETP) ended its international public finance for fossil fuels. This leaves South Korea as the sole top fossil fuel provider with no policy in place to end its international oil and gas finance.
- **The vast majority (84%) of South Korea's fossil fuel finance flowed to fossil gas** between 2020 and 2022. This was followed by 8% for mixed oil and gas, 6% for coal, and 2% for oil.
- **72% of South Korea's fossil finance between 2020 and 2022 went to support midstream transportation and processing**, with the vast majority going to support LNG carriers.
- **South Korea's coal exclusion policy, which came into effect in 2021 has worked,** there has been no international public finance for coal in 2021 or 2022.

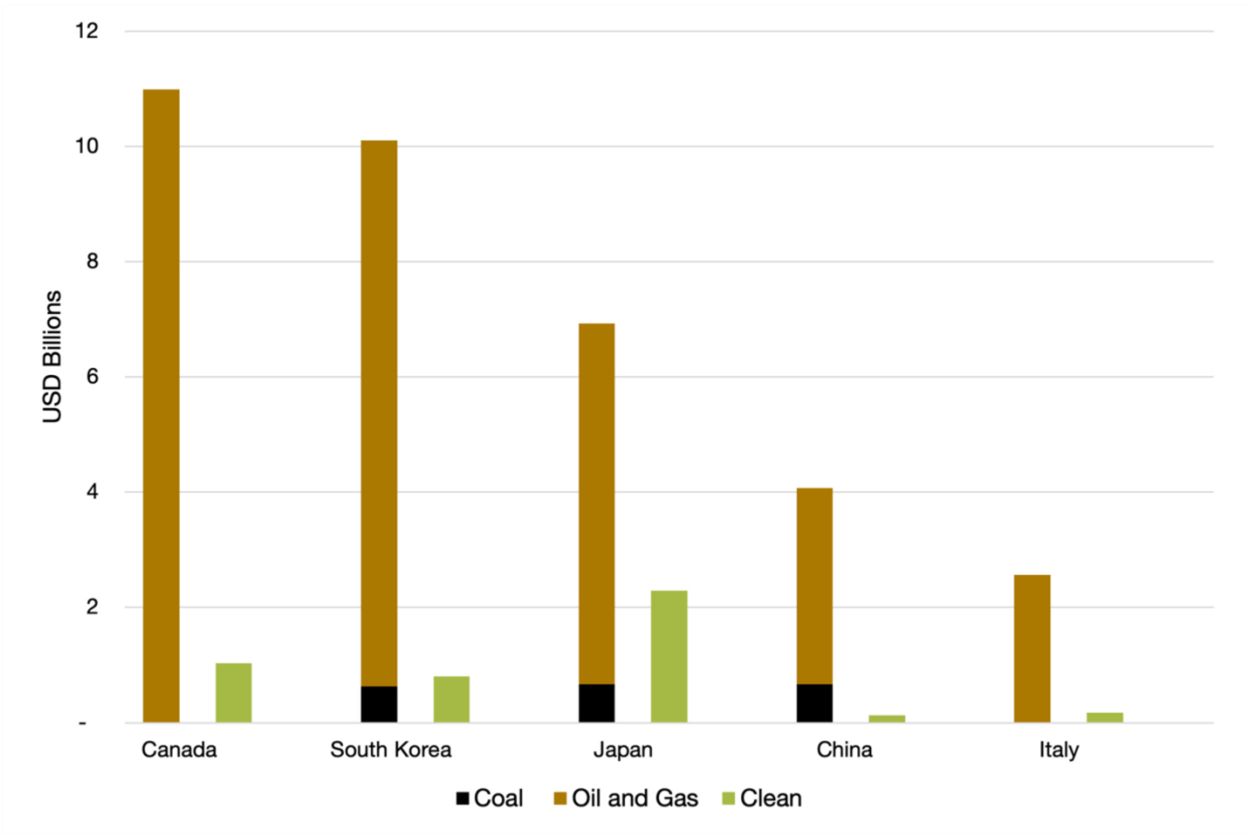
[1] Oil Change International 2023 analysis found nearly 60% of developed oil, gas, and coal must remain unextracted under a remaining 1.5°C carbon budget (50% probability) of 380 gigatonnes (Gt) carbon-dioxide (CO2). The latest science indicates the world's remaining 1.5°C carbon budget is significantly smaller than assumed in that analysis (e.g., just 210 gigatonnes Gt CO2 from the start of 2024). This updated budget implies that as much as three quarters of developed reserves must stay in the ground. Kelly Trout, "Sky's Limit Data Update: Shut Down 60% of Existing Fossil Fuel Extraction to Keep 1.5°C in Reach," Oil Change International, August 2023, https://priceofoil.org/2023/08/16/skys-limit-data-update-shut-down-60-of-existing-fossil-fuel-extraction-to-keep-1-5c-in-reach; Trout et al., "Existing fossil fuel extraction would warm the world beyond 1.5 °C."

[2] The briefing examines finance from: Export-Import Bank of Korea (Korea EXIM), Korea Trade Insurance Corporation (K-Sure) Korea Development Bank (KDB), Korea Finance Corporation (KoFC), and Korea International Cooperation Agency (KOICA). Due to gaps in reporting by these institutions, the figures presented here are likely underestimated.

However, their overall fossil fuel finance has not decreased, and instead this finance has gone to support more oil and gas rather than moving to clean energy. This is why it is critical that South Korea expands its coal exclusion policy to all fossil fuels.

- Between 2020 and 2022, **South Korea's international fossil fuel finance was almost 13 times greater than its clean energy[3] finance,** which averaged just USD 805 million annually. In comparison, Japan's clean energy finance was the highest among the top 5 fossil fuel financiers, and 3 times more than South Korea's at USD 2.3 billion annually.

Figure 1: Top 5 G20 country providers of international public finance of fossil fuels compared to clean energy, annual average 2020-2022, in USD billion



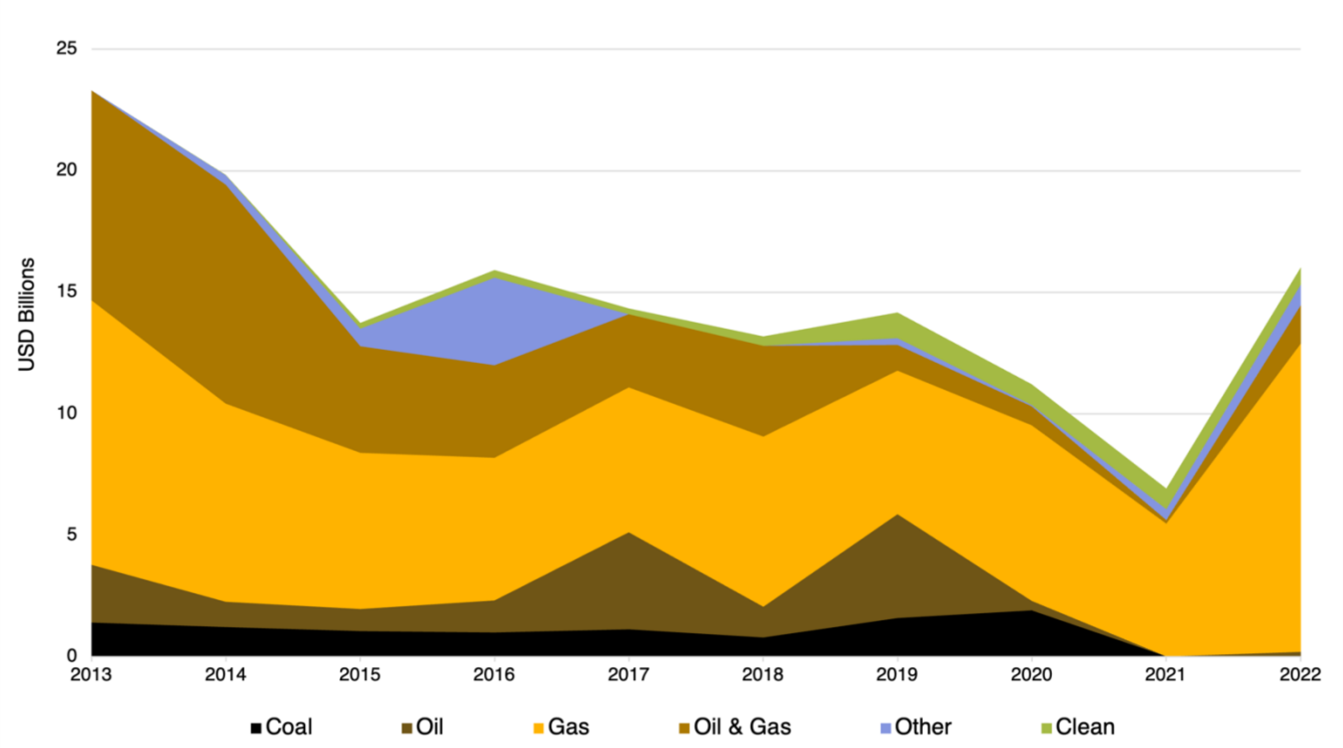
Source: energyfinance.org

South Korea's large, continued fossil fuel support is blocking a just and equitable transition to clean energy.

[3] Clean energy here is includes energy that is both low-carbon and has negligible impacts on the environment and human populations if implemented with appropriate safeguards. This includes solar, wind, tidal, geothermal, and small-scale hydro. This classification also includes energy efficiency projects where the energy source(s) involved are not primarily fossil fuels. For more information see energyfinance.org/#/about

Public finance has an outsized influence over our energy systems, particularly in shaping which types of energy projects ultimately get built. These loans, grants, equity purchases, and guarantees lower risk for other investors because they are government-backed and often provided at preferential below-market rates and longer time horizons. While it could play a leading role in catalyzing a just energy transition, instead South Korea's international public finance institutions are playing an outsized role in the transportation and processing of fossil gas (Figure 2 & 3). This includes projects like pipelines, LNG terminals and carriers, which are the most expensive infrastructure in the oil and gas supply chain and therefore the hardest for the private sector to build alone.[4]

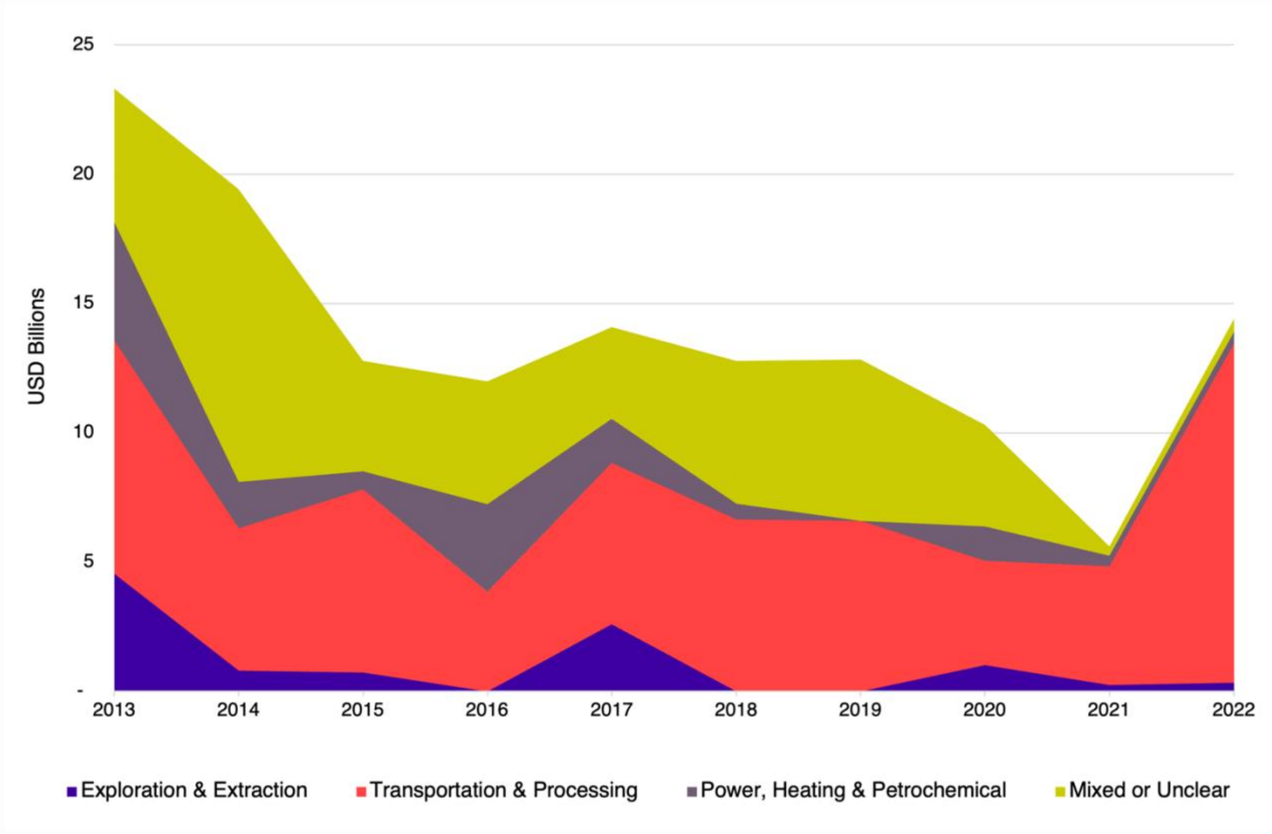
Figure 2: Annual South Korean international public finance by energy type, 2013-2022, in USD billion



Source: energyfinance.org

[4] *LNG Carriers: The Floating Pipeline Powering Global Gas Expansion - Unveiling its Hidden Enablers,* Solutions for Our Climate, November 2023, https://forourclimate.org/en/sub/data/lng-carrier; "LNG Finance - will lenders accommodate the changing environment?" The Oxford Institute for Energy Studies, 2020, p. 20, https://www.oxfordenergy.org/wpcms/wp-content/uploads/2020/11/Insight-78-LNG-Finance-will-lenders-accommodate-the-changing-environment.pdf

Figure 3: South Korean international public finance for fossil fuels by lifecycle stage, 2013-2022, in USD Billions



Source: energyfinance.org

There is a more constructive role South Korea's government-owned financial institutions can play if democratic, accountable, fossil-free, and equitable policies are put in place.

In 2021, 39 signatories, including some of the largest historic providers of international public finance for fossil fuels pledged to end all direct international public finance for unabated fossil fuels by the end of 2022 and instead prioritize their international public finance for the clean energy transition. Signatories include Canada, Italy, Germany, and the United States. Japan also joined peers in making a near-identical commitment at the G7 in May 2022.[5] This leaves South Korea as a key laggard, which has yet to commit to ending its international public finance for oil and gas.

[5] Nicole Rodel, "Response: G7 ministers pledge to end public finance for fossil fuels by the end of this year, prioritizing clean energy support instead," Oil Change International, May 27,2022,https://priceofoil.org/2022/05/27/response-g7-ministers-pledge-to-end-public-finance-for-fossil-fuels-by-the-end-of-this-year-prioritizing-clean-energy-support-instead/

To align public finance for energy with an equitable and high-probability pathway to 1.5°C South Korea should:

- Join the CETP and implement whole-of-government policies to immediately end new public direct and indirect finance for oil, gas, and coal projects. These policies must not include loopholes for technologies including carbon capture and storage (CCS) fossil-based hydrogen, ammonia co-firing, fossil gas, and other dangerous distractions.
- Support proposals from the EU, UK, and Canada[6] to restrict oil and gas finance at the Organisation for Economic Cooperation and Development (OECD).[7] The OECD Arrangement on Officially Supported Export Credits sets rules that all OECD country ECAs must follow. Currently, it restricts most coal finance, but it appears that Korea and the United States have not supported these proposals to restrict oil and gas financing from OECD ECAs.[8]
- Dramatically scale up clean energy finance on fair terms, especially for transformative energy democracy and environmental justice priorities where the need is greatest.
- Reform their public reporting to ensure it is transparent and timely.

Photo: Nicholas Dohert

[6] Kenza Bryan and Alice Hancock, "EU and UK seek to ban on subsidies for foreign fossil fuel projects," Financial Times, October 29, 2023, https://www.ft.com/content/b4d0e4be-aa81-4345-a004-b76cafc5129e

[7] Nina Pušić and Claire O'Manique, *Changing the Trade Winds: Aligning OECD Export finance for energy with climate goals*, Oil Change International, May 2023, https://priceofoil.org/2023/05/23/changing-the-trade-winds-aligning-oecd-export-finance-for-energy-with-climate-goals/

[8] Kenza Bryan, Aime Williams and Alice Hancock, "US and EU differ over the future of fossil fuel subsidies in OECD talks" Financial Times, March 26, 2024, https://www.ft.com/content/de9fee8b-e369-4603-9054-4cabb20bf349