S. Korea provided more than $127bn in support to global oil and gas projects, study reveals

First comprehensive analysis of Korea's public finance to oil and gas pins total support between 2011 to 2020 at $127 billion -- 13 times larger than support for coal power projects in the same period

August 31, 2021 – Korean public financial institutions, including the Export-Import Bank of Korea (KEXIM), Korea Trade Insurance Corporation (K-SURE), and Korea Development Bank (KDB), provided a whopping $127bn in support for overseas oil and gas projects from 2011 to 2020, according to the first comprehensive analysis of Korean public support for the two fossil fuels conducted by research and advocacy organization Solutions for Our Climate (SFOC).1

The new report, *Fueling the Climate Crisis: South Korea's Public Financing for Oil and Gas,* reveals the support to be 13 times larger than that provided for overseas coal-fired power generation over the same period, which amounted to $10bn, also as exposed by SFOC in 2019.2 South Korea, one of the world's top three international coal financiers, along with China and Japan, pledged to end overseas coal finance at the U.S. Leaders Summit on Climate in April this year.

Sejong Youn, Climate Finance Program Director at SFOC and lead author of the report said, "The figures are shocking. South Korea has long been criticized as a 'climate villain' for providing massive support to overseas coal power projects, but the country's newly revealed public finance to overseas oil and gas completely dwarfs its backing of coal."

Support even among upstream, midstream, and downstream sectors, Korean shipbuilders among biggest beneficiaries

According to the research, Korean public financiers have supported both state-owned enterprises and private sector companies for oil and gas projects abroad in the form of loans and guarantees.

The distribution of Korea's public financing for oil and gas among the value chain is even, with $32.2bn (25%) in upstream projects, $49.7bn (39%) in midstream, and $45.1 (36%) in the downstream segment.3

Geographically, the Middle East is the biggest host of projects financed by Korean public funds ($35.3bn) over the past ten years, followed by Central Asia, which includes Uzbekistan, Turkmenistan, and Russia ($10.1bn). The rest of Asia – Southeast Asia, South Asia, and East Asia – is the third largest, with $6.8bn deployed to the region.

In the upstream sector, Australia is the biggest host of projects with Korean support of $3.6bn, followed by Mozambique with $2.7bn, and the United States with $2bn. One of the most polluting offshore gas projects, the $5.6bn Barossa-Caldita in Australia is currently under development. SK E&S, part of the South Korean conglomerate SK Group, holds a 37.5% stake in the project, which arrived at a final investment decision in March 2021 with KEXIM's financial support.

Within the downstream segment, 31% has been committed to oil refining and petrochemical projects, of which 79% was deployed to Middle East and Central Asia. In terms of the biggest host country, Kuwait ranked first with funds of $7.6bn, followed by Saudi Arabia ($4.3bn) and Uzbekistan ($3.7bn), respectively.

The most notable beneficiaries in the industrial sector are major Korean shipbuilders, including Daewoo Shipbuilding & Marine Engineering, Samsung Heavy Industries, and Hyundai Heavy Industries. Nearly half (46%) of all Korea's oil and gas public finance, which is about $57.7bn, has been invested in shipbuilding and offshore plant financing. Of the $57.7bn, $41bn (71%) was provided for transportation vessels, of which LNG carriers received the most, with $23.1bn. As of 2018, Korea's shipbuilding industry is the world's largest, with a global market share of 44.2%.

Warnings of stranded asset, transition, and climate credibility risks

The findings are particularly troublesome given that oil and gas constitute nearly half of global CO_2 emissions, and amid warnings from the International Energy Agency (IEA) calling for no new investments in fossil fuel infrastructure to achieve global carbon neutrality by 2050.

SFOC's analysis warns that Korea's massive public finance to oil and gas projects are a *de facto* subsidy to fossil fuels and increases transition risk for domestic industries and stranded asset risk for financial institutions.

Public financiers are already implementing restrictions on fossil fuel investments to address the climate crisis. The UK government and the European Investment Bank announced plans to end public financing for fossil fuels, while the Swedish export credit agencies, Exportkreditnämnden (EKN) and Svensk Exportkredit (SEK) also established a policy to cease all financing for fossil fuel exploration and development by 2022.

On August 16th, 2021, the U.S. Treasury announced a guidance to multilateral development banks on restricting fossil fuel financing. Except for some downstream and natural gas facilities in developing countries, the US Treasury will oppose coal and oil-based projects and upstream of natural gas projects while restricting the downstream ones.

Dongjae Oh, a researcher at SFOC and co-author of the report, said: “Further investments in oil and gas projects go against the public’s interest by contributing to climate disasters and is a direct contradiction to the country’s carbon neutrality drive.”

“To minimize risk to the Korean economy and public funds, and to build demonstrate climate leadership, Korea needs to rapidly stop the pipeline of overseas fossil fuel projects like public institutions in the United Kingdom, Sweden, and United States.”

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Solutions for Our Climate (SFOC) is a South Korea-based group that advocates for stronger climate change policies and transition towards a fossil-free society. SFOC is led by legal, economic, financial, and environmental experts with experience in energy and climate policy and works closely with policymakers.

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Notes

1. For this study, the researchers first identified overseas oil and gas projects in which Korean corporations have taken part between 2011-2020. For the financing details of the identified overseas oil and gas projects, direct data requests were made to the three public institutions under analysis – KEXIM, K-SURE, and KDB – via the Office of National Assembly Member Hyungbae Min and the Office of National Assembly Member Soyoung Lee.
2. *Fueling the Climate Crisis: South Korea’s Public Financing for Oil and Gas* (2021)builds on SFOC’s previous report on South Korea’s public financing for coal, *Bad Investments that Endanger Investors and the Earth* (2019).
3. In the oil and gas value chain, the upstream segment refers to the production of oil and gas, including exploration drilling, extraction and production, while the midstream sector represents the transporting process of oil and gas to the place of demand by vessels or through pipelines. The downstream segment is the final consumption phase in which the crude oil and gas have arrived at the place of demand are consumed as fuel or used as raw material to manufacture products.