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Swiss Confederation

Federal Department of Economic Affairs,
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State Secretariat for Economic Affairs SECO
Economic Cooperation and Development

Federal Department of the Environment,
Transport, Energy and Communication DETEC
Federal Office for the Environment FOEN
International Affairs Division

Federal Department of Foreign Affairs FDFA
Swiss Agency for Development and Cooperation SDC
Global Programme Climate Change and Environment

Updated Swiss Position on Fossil Fuel Investments in MDBs

Date: May 2022

Given the importance of low-carbon energy strategies in achieving the goals of the Paris Agreement and the particular role that Multilateral Development Banks (MDBs) play in this context, Switzerland has decided to adopt a stronger stance against fossil fuel investment projects in MDBs. This updated Swiss policy is based on related decisions by the Federal Council[1], and has been refined in a coordinated effort by the State Secretariat for Economic Affairs, the Federal Office for the Environment and the Swiss Agency for Development and Cooperation[2]. The current policy consists of the following:

- **Decarbonisation**: Switzerland supports countries on their path to decarbonising their economies, including through its engagement in MDBs. Such a path requires reforms and transformations in a number of key sectors, in particular energy generation. Switzerland prioritizes a focus on renewable energy, energy efficiency and related infrastructure such as storage capacity and smart grid technologies, highlighting the opportunities of a green energy transition in terms of access to energy, job creation, cost reduction, inclusive economic development and security of supply. Whenever possible, Switzerland supports market-based solutions, ambitious carbon pricing and emissions trading to decarbonise economies in alignment with the Paris agreement.
- **Rejection of**: (1) any coal financing; (2) all up-stream activities of fossil energies (i.e. extraction and exploration of any fossil fuel source); (3) oil / diesel power plants, unless they are needed as emergency power capacities, and mid-stream oil projects.
- **Gas power plants and mid- & down-stream gas** (i.e. preparation, distribution, transport, further processing; including pipelines, LNG terminals, refineries, including upgrading of existing fossil fuel infrastructures) **as well as downstream oil projects are generally not supported**, except in exceptional circumstances. Exceptions will be reviewed against the following cumulative "NEAT" criteria, taking into consideration the specific circumstances of countries, in particular low-income countries and fragile states:
  - **Need**: Energy demand cannot be covered at affordable costs by renewable energy and / or by energy efficiency measures. The project offers an important development benefit, such as access to reliable and affordable electricity supply (security of supply) for poorer population groups, regions, countries; jobs are created (not only during construction, but also during operation); the project reduces air pollution, etc.

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[1] See statements of the Federal Council in response to Ip 19.3897 (2019) and Ip. 19.4544 (2020).
[2] This document can also serve as guidelines for Swiss positions on projects proposed by multilateral institutions other than MDBs, as well as bilateral development projects of Switzerland's international cooperation in the energy sector.

- **Efficiency**: the project complies with the concept of “best available technologies” (BAT). The financial and economic profitability must be taken into account (e.g. by means of carbon shadow pricing), over the entire life of the project and taking into account foreseeable technological developments.
- **Additionality**: The project could not be implemented without the MDB. The project improves the environmental / social / financial performance (financial and non-financial additionality), and reduces political risks such as nationalization or breach of contract. Less advanced or fragile project countries are more dependent on MDB financing or on a higher degree of concession. Financial additionality alone is not sufficient.
- **Transition**: The project complies with the effective implementation of a national climate strategy towards renewable energies and the corresponding national climate target (NDC) and is in line with the goals of the Paris Agreement[3], i.e. it contributes to the energy mix targets in the country towards 2030 and 2050. The support leads to a higher ambition of the climate target (so-called conditional part of the NDC). Lock-in effects must be credibly prevented and the net zero target of the Paris Agreement must be implemented by 2050.

- **Domestic use**: mid-/downstream projects supporting the provision of gas for clean cooking and household heat generation can be supported where cleaner alternatives are not affordable.
- **Decommissioning**: Switzerland supports the development of new skills for the workforce, but not financial contributions to operators for stopping the use of fossil fuel power plants. Support for decommissioning should not detract from ambitions to promote renewable energy.
- With regard to investments in fossil fuel activities via **financial intermediaries**, Switzerland advocates for policies that call for a decarbonisation strategy:
  - This includes a formal commitment to support the goals of the Paris agreement.
  - Commercial banks must review the CO2 intensity of their portfolio and submit a strategy for project approval that shows how they can reduce the CO2 intensity of their portfolio over the next 5 years.
  - Private equity funds should not allow investments in coal and upstream projects.

The above position depends on the voting group’s composition and internal procedures Switzerland is part of. Switzerland will always aim to convince its constituency partners, but will generally not abstain or oppose projects implemented in a country of its own voting group. In institutions that do not allow split votes in Board decisions, Switzerland will join the majority of the voting group.

If a fossil fuel project (except coal) serves specific Swiss interests (own security of supply; employment in Switzerland), it will be examined in greater detail and, in exceptional cases, can be supported if the majority of the “NEAT” criteria are met.

The paper can be adapted based on experiences in the application of the above criteria. Further specifications and criteria regarding the Swiss position in MDBs in connection with other CO2-intensive sectors (e.g. waste management; transport; industry including for example cement or fertilizer production; district heating / buildings; agriculture) or in the case of policy-based loans are to be developed in a second stage.

This paper is to be understood as a guideline or “assessment framework”. It is a work document but not an official publication. Ultimately, the decision is made by the line and can accordingly be escalated to the highest Swiss representative in the respective institution, in sensitive cases.

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[3] MDBs are working jointly on methodologies to define Paris Alignment. Switzerland asks them to review methodologies regularly to reflect the latest scientific climate analysis (e.g. findings of the IEA Net Zero Roadmap to 2050, sectoral decarbonisation pathways).