



Phase-out 2020: monitoring Europe's fossil fuel subsidies

September 2017

Executive summary

Recommendations

We recommend that European governments and the EU should take the following key steps:

1. Lead the G7 and the G20 by meeting its commitment to phase out fossil fuel subsidies by 2020.
2. Increase transparency, with a publicly disclosed, consistent annual reporting scheme at national and European level, covering all support to fossil fuels.
3. Work across EU policies to ensure that comprehensive planning, monitoring and reporting mechanisms on the fossil fuel subsidy phase-out, are integrated into Member States' national energy and climate plans.
4. Ensure international institutions funded by European governments eliminate existing subsidies for fossil fuels, and monitor reforms so that no new subsidies are established.
5. Ensure that mechanisms with the stated aim of assisting the energy transition do not support fossil fuel production and consumption.
6. Target any remaining subsidies to ensure a 'just transition' for workers and communities, and that those to households support the most vulnerable groups.

Under the Paris Agreement, European governments and the European Union (EU) are committed to a low-carbon transition, with a goal of net zero emissions by the second half of this century, while making ‘finance flows consistent’ with that pathway. If European governments are to achieve this, they must phase out their support to the production and consumption of fossil fuels.

Shifting government support away from fossil fuel production and consumption is also an important means of achieving Europe’s wider economic, social and environmental objectives. These include unlocking government resources for public goods, such as education, as part of wider fiscal reform; levelling the playing field for clean energy and energy savings; and improving public health by reducing air and water pollution.

Rhetorically at least, European governments have promised to end their support to fossil fuels. The EU and all its Member States have committed to phasing out environmentally harmful subsidies, including those to fossil fuels, by 2020. European governments have made parallel pledges to end inefficient fossil fuel subsidies under the G7 and the G20.

European governments are not on track to meet 2020 subsidies pledge

Unfortunately, European countries and EU bodies are failing to match these bold commitments, which risks undermining their decarbonisation efforts. In spite of their high-level pledges, they have no common definition for subsidy estimation, nor clear plans or timelines for phasing out these subsidies. Beyond a voluntary mechanism under the European Semester, there is no comprehensive EU-level system to monitor subsidies and hold the EU and its Member States to account for failing to address them. With only a few exceptions, European governments have done very limited reporting of their fossil fuel subsidies.

Where information was available, our research shows that governments across the region are falling behind in meeting their 2020 phase-out commitment, by continuing to provide subsidies to fossil fuels. For the period between 2014 to 2016, we identified 997 fossil fuel subsidies, provided through fiscal support, public finance, and investment by state-owned enterprises (SOEs). Of these subsidies, however, 153 (15%) could not be quantified. In total, 11 European countries¹ and the EU provided at least €112 billion in subsidies per year between 2014 and 2016 towards the production and consumption of fossil fuels. €4 billion of these subsidies came from the EU itself (see table overleaf).

The transport sector benefited from the highest level of subsidies identified, directed towards the use of fossil fuels. Governments provided the transport sector with at

least €49 billion per year in direct spending, tax breaks, and income and price support – almost half (44%) of the support for fossil fuels identified in this study. Much of this support takes the form of subsidies to diesel consumption €21 billion (43%), which has high costs for both health and the environment. Based on available data, after the transport sector, industry and business receive the most subsidies. These subsidies were estimated at nearly €15 billion per year, all through fiscal support, including tax breaks for energy-intensive industries.

Our research also found that the EU and those European governments reviewed together provided almost €7.3 billion per year in public finance to oil and gas production in Europe and overseas. This is in addition to fiscal support (€3.3 billion) and SOE investment (€2.7 billion). Germany, Italy, the UK and the EU provided the highest levels of public finance to oil and gas production.

Subsidies to fossil fuel production put Paris commitments at risk

To meet global climate objectives, which aim to avoid dangerous climate change, three quarters of known fossil fuel reserves must be left in the ground. However, European governments continue to subsidise exploration for fossil fuels, which puts Europe at serious risk of missing the goals of the Paris Agreement.

The EU budget’s research and innovation programme, Horizon2020, gave €12 million per year for shale gas-related exploration activities; and France and the UK together provided €253 million per year in public finance to fossil fuel exploration. If France continues this support it would undermine the government’s 2017 announcement that it will stop granting new licenses for oil and gas exploration.

As part of the wider support provided to oil and gas production outlined above, our research found that the key EU investment and development banks, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), together provided over €2.4 billion of public finance for gas infrastructure projects inside and outside the EU. This is despite mounting evidence that demand for gas in Europe is falling, in part due to success in meeting the EU’s own energy efficiency targets.

European governments have also specifically committed to phase out subsidies to hard coal mining by 2018. However, our research revealed that at least €3.3 billion per year was provided annually in fiscal support to coal mining across the countries and institutions reviewed (including for the transition away from coal – see below). And despite pledges to end public finance to coal overseas as part of wider climate commitments, we found that

1 Czech Republic, France, Germany, Greece, Hungary, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom. These 11 countries represent 83% of Europe’s energy-related greenhouse gas (GHG) emissions.

€389 million was provided for coal mining internationally (including from EBRD) between 2014 and 2016. Italy, Poland and Germany provided most of this international support for coal production. European governments and the EU also continue to provide international public finance to fossil fuel production, including €1.7 billion to fossil fuel based power production overseas.

Fossil fuel subsidies may be stalling Europe's energy transition

Many European governments have committed to phasing out coal-fired power in the medium term, yet between 2014 and 2016, coal-fired power benefited from at least €2.2 billion per year in fiscal support. State-owned utility companies provided €5.7 billion in support to wider fossil fuel-based power generation, most prominently in Poland, as well as in the Czech Republic, France, Greece, Hungary and Sweden. As far as we are aware, there are no programmes in Europe to support the transition of SOEs away from fossil fuels.

Our research also found that fiscal support to fossil fuels worth €4.3 billion per year have the stated aim of facilitating the energy transition. This includes support to fossil fuels through capacity mechanisms,² support for co-firing of biomass with coal, and the EU Emissions Trading Scheme (ETS).

How can Europe ensure a 'just transition' for workers, communities and vulnerable groups?

In moving away from fossil fuels, including coal, Europe recognises the vital need to ensure support for workers and communities. Of the fiscal support to coal mining identified, three-quarters – around €2.6 billion per year – are nominally to facilitate the transition away from coal. This includes €313 million to support workers and communities, and €314 million for the rehabilitation and decommissioning of mining sites (with the clear majority being unspecified transition support). While this support is crucial, the burden should not fall only on governments; businesses in the sector should also take responsibility for the costs of transition.

European governments have committed to 'provide targeted support for the poorest' as part of their repeated

G20 pledge to phase out fossil fuel subsidies. Based on available data, our research found that households received at least €6.6 billion per year, with most of that fiscal support being provided in the UK (€4.7 billion) and Italy (€1.7 billion), through tax breaks. Data was unavailable for many of the measures supporting households. Of the total number of measures identified, only half (54%) were targeted at a segment of the population (i.e. the poor and vulnerable, large families, and workers employed in specific sectors). When measures are not targeted, they can prove regressive, for example benefiting most the middle class who use more electricity and fuel.

As this study shows, governments in Europe and the EU continue to subsidise a reliance on oil, gas and coal, fuelling dangerous climate change with taxpayers' money both at home and abroad. Despite broad agreement that fossil fuel subsidies are a problem, and a select group of European countries undertaking reform, these subsidies have proven politically difficult to eliminate. European governments must be held accountable for the fossil fuel subsidies highlighted in this report, and must seize the opportunity to end support to the fossil fuel industry once and for all.

We recommend that European governments and the EU should take the following key steps:

1. Lead the G7 and the G20 by meeting its commitment to phase out fossil fuel subsidies by 2020.
2. Increase transparency, with a publicly disclosed, consistent annual reporting scheme at national and European level, covering all support to fossil fuels.
3. Work across EU policies to ensure that comprehensive planning, monitoring and reporting mechanisms on the fossil fuel subsidy phase-out, are integrated into Member States' national energy and climate plans.
4. Ensure international institutions funded by European governments eliminate existing subsidies for fossil fuels, and monitor reforms so that no new subsidies are established.
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6. Target any remaining subsidies to ensure a 'just transition' for workers and communities, and that those to households support the most vulnerable groups.

2 Capacity mechanism: an administrative measure to ensure the achievement of the desired level of security of supply by remunerating generators for the availability of resources (European Parliamentary Research Service, 2017).

Table 1: Europe's* fossil fuel subsidies by activity and instrument (Euro millions, annual average 2014-2016)

Instrument/ activity	Production				Consumption					TOTAL
	Coal mining	Oil and gas	Electricity	Multiple or unclear	Transport	Industry and business	Household	Agriculture	Multiple or unclear	
Fiscal support (Budget expenditure + tax exemptions + price and income support)	3,328	3,326	5,838	1,067	49,222	14,975	6,641	2,564	1,613	88,574
Public finance	411	7,257	1,714	2,587	0	0	23	0	0	11,992
<i>Domestic + EU</i>	23	3,079	25	255	0	0	23	0	0	3,405
<i>International (outside the EU)</i>	389	4,178	1,688	2,332	0	0	0	0	0	8,587
State-owned enterprise (SOE) investment	434	2,730	5,646	2,592	0	0	362	0	0	11,764

Note: For sources and data, see data sheet and summary report available at odi.org/Europe-fossil-fuel-subsidies

* Data refers to 11 countries (Czech Republic, France, Germany, Greece, Hungary, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom) and the European Union.

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This executive summary is part of a series of 11 country briefs and an EU-level brief, the findings of which are collated in the summary report *Phase-out 2020: monitoring Europe's fossil fuel subsidies*.

For the purposes of this executive summary, fossil fuel subsidies include: fiscal support from governments (budgetary support, tax breaks, and price and income support), public finance, and investment by state-owned enterprises (SOEs). The years for which data was collected and analysed is 2014, 2015 and 2016, and findings are expressed in annual averages across this period.

View the summary report and accompanying briefs at odi.org/Europe-fossil-fuel-subsidies



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