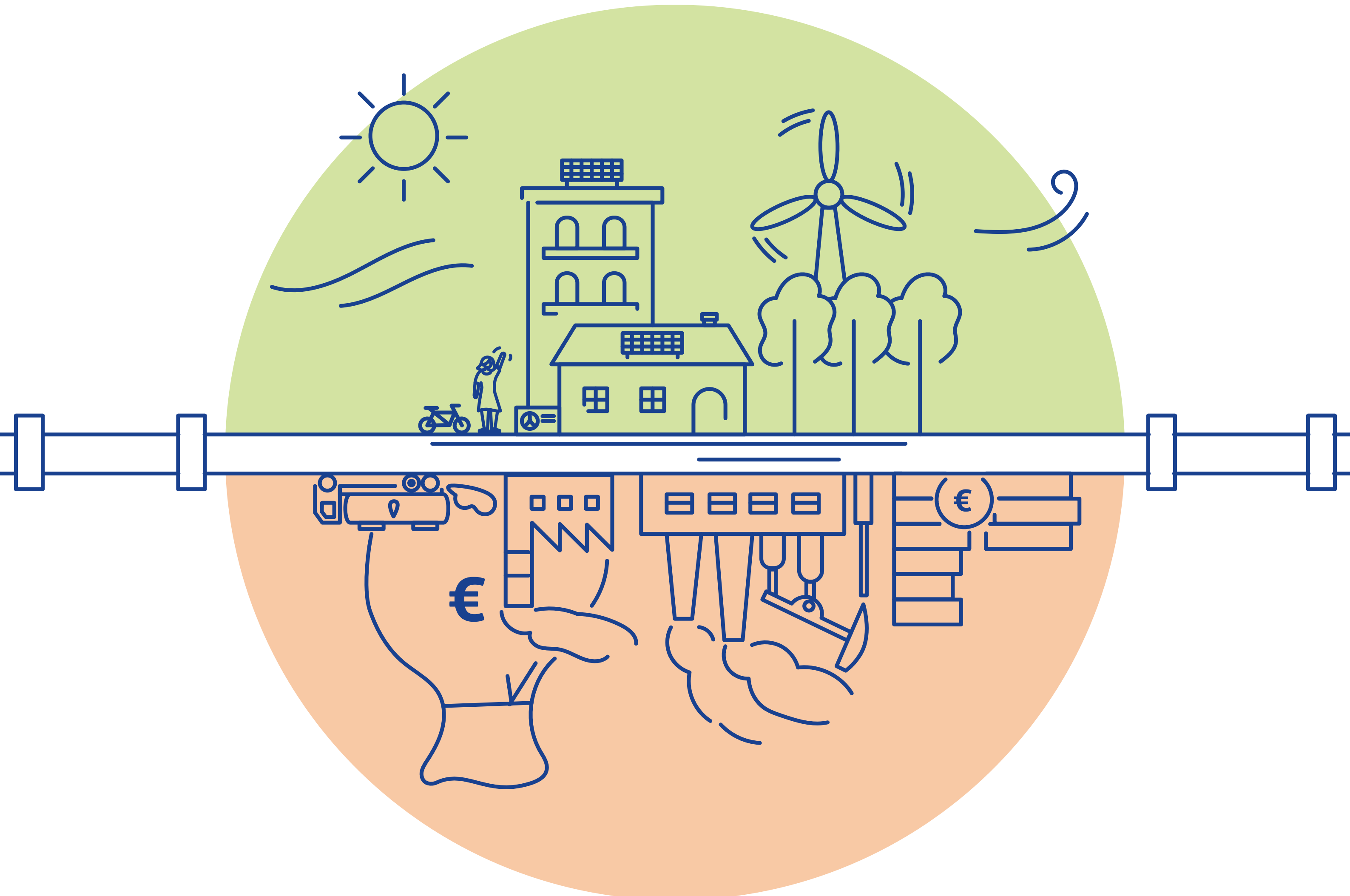
How to stop the never-ending nightmare

FOSSIL FUEL SUBSIDIES IN THE EU

March 2023



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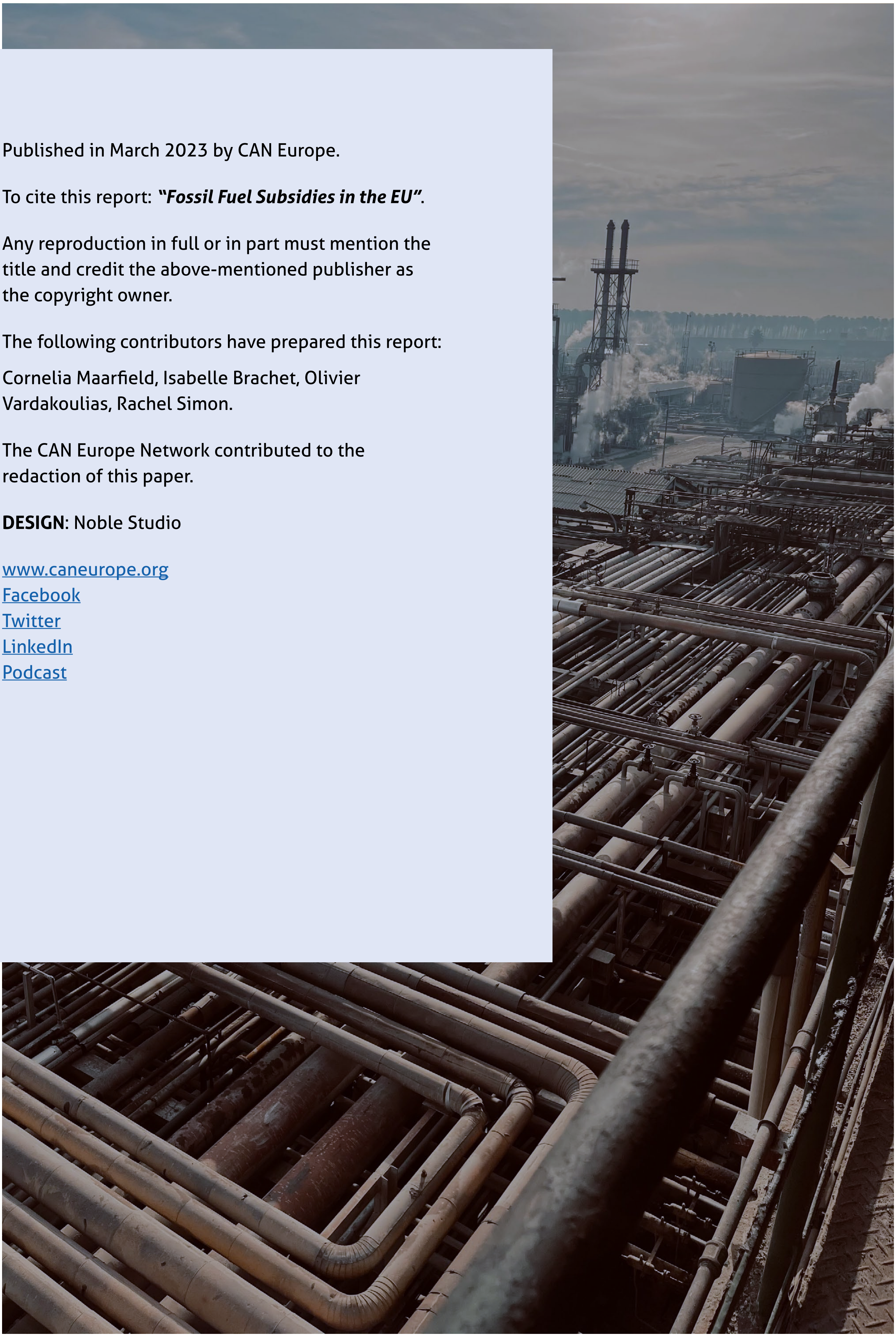

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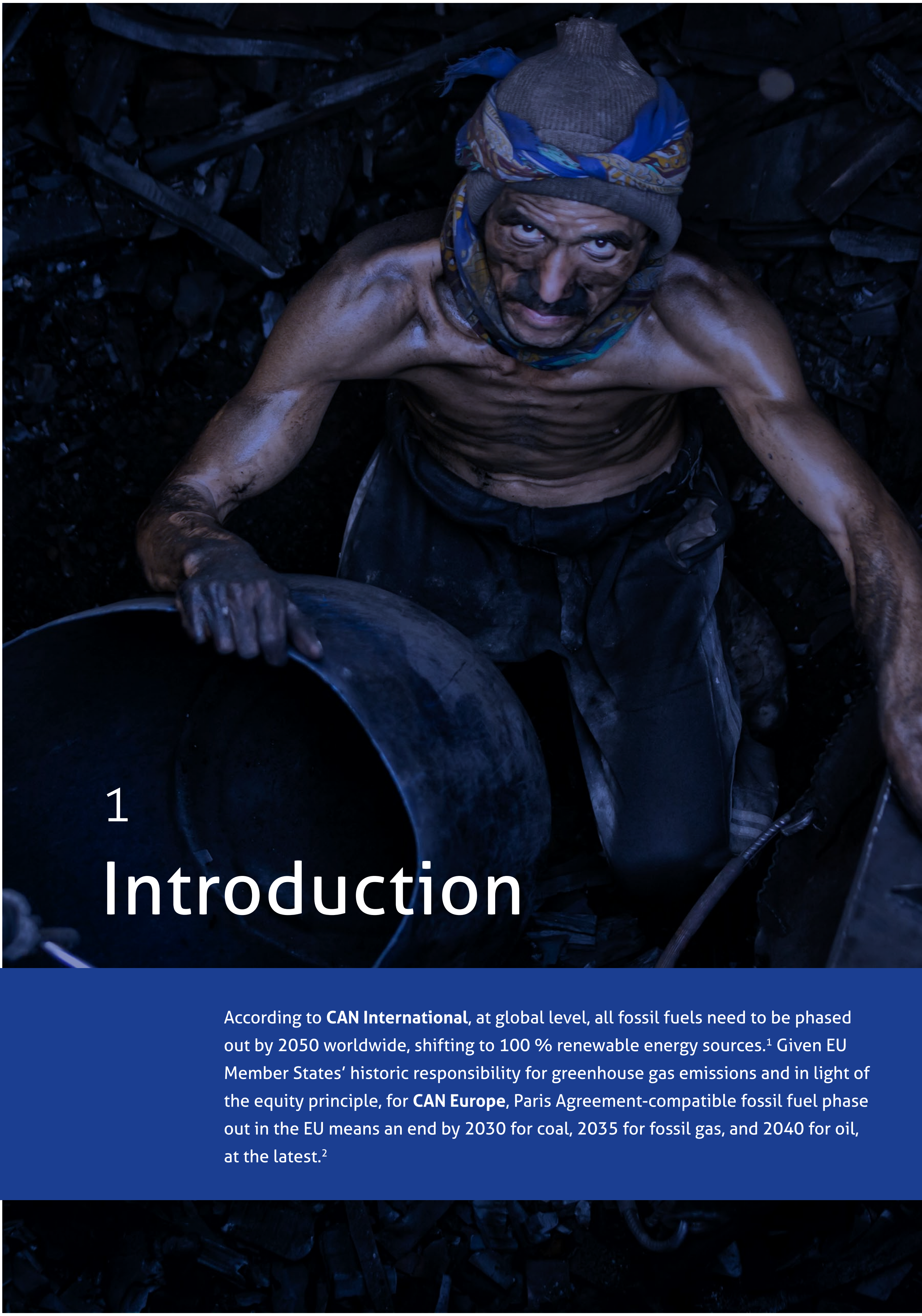


1 Introduction

According to **CAN International**, at global level, all fossil fuels need to be phased out by 2050 worldwide, shifting to 100 % renewable energy sources.[1] Given EU Member States' historic responsibility for greenhouse gas emissions and in light of the equity principle, for **CAN Europe**, Paris Agreement-compatible fossil fuel phase out in the EU means an end by 2030 for coal, 2035 for fossil gas, and 2040 for oil, at the latest.[2]

The United Nations Intergovernmental Panel on Climate Change (IPCC) considers that "All global modelled pathways that limit warming to 1.5°C with no or limited overshoot, and those that limit warming to 2°C, involve rapid, deep and in most cases immediate greenhouse gas emission reductions in all sectors. Modelled mitigation strategies to achieve these reductions include transitioning from fossil fuels without carbon capture and storage to very low- or zero-carbon energy sources". New fossil fuel infrastructure is incompatible with international climate goals, and up to $4 trillion of fossil fuels and related infrastructure will likely have to be abandoned by 2050 in order to keep within safe temperature limits.[3]

The International Energy Agency (IEA) announced in 2021 that to get to net zero by 2050, "from today, there should be no investment in new fossil fuel supply projects, and no further final investment decisions for new unabated coal plants".[4]

The EU and all its Member States have committed to phasing out environmentally harmful subsidies, including those to fossil fuels, by 2020.[5] In 2016, the G7 including a number of European governments and the EU made pledges to end "inefficient fossil fuel subsidies" while "encouraging all countries to do so" by 2025.[6] The commitment to phase out inefficient fossil fuel subsidies has been reiterated every year since 2009, as part of the G20.[7] At COP26, for the first time parties to the UNFCCC committed to phase out inefficient fossil fuel subsidies. In addition 34 countries, of which 12 EU Member States, pledged to end their international public finance for fossil fuel energy projects (largely in developing countries). However these pledges are being weakened in implementation, and COP27 failed to build on and move beyond what was committed at COP26.

1 CAN International position: fossil gas, 2021, https://climatenetwork.org/resource/can-international-position-fossil-gas/

2 CAN Europe, Paris Agreement compatible scenarios for energy infrastructure, https://www.pac-scenarios.eu/

3 Climate Change 2022, Mitigation of Climate Change, Working Group III Contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, 2022, https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_SPM.pdf

4 IEA, Net Zero by 2050: A Roadmap for the Global Energy Sector, 2021, https://www.iea.org/news/pathway-to-critical-and-formidable-goal-of-net-zero-emissions-by-2050-is-narrow-but-brings-huge-benefits

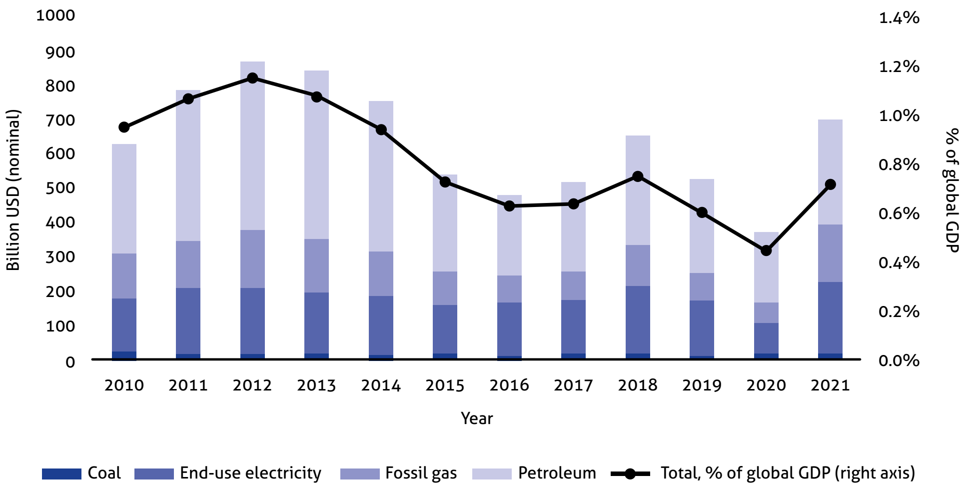
5 Roadmap to a resource efficient Europe, Communication from the Commission, COM(2011) 571 final, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52011DC0571

6 G7 Ise-Shima Leaders' Declaration, 2016, https://www.mofa.go.jp/files/000160266.pdf; see also ODI, Are the G7 on track to phase out fossil fuel subsidies by 2025?, https://odi.org/en/publications/multimedia/are-the-g7-on-track-to-phase-out-fossil-fuel-subsidies-by-2025/

7 G20 Leaders' Statement: The Pittsburgh Summit, 2009.

These pledges have remained an empty promise to this date and fossil fuel subsidies remain extremely high. According to the latest available data (Figure 1) over the past decade, explicit fossil fuel subsidies at global level have barely declined from a peak of almost 1.2% of global GDP in 2012 to 0.8% in 2021. Fossil fuel subsidies in 2021 were almost double the total investments in renewable energy globally, which reached 446 billion USD (about 0.45% of global GDP) over the same year[8]. When accounting for implicit subsidies (see section 2), total fossil fuel subsidies internationally are in fact significantly higher, reaching 6.8% of global GDP in 2020 (Figure 2). This figure represents almost five times the amount of total investments in clean energy internationally in 2020, a figure which includes not only renewable power but also investments in energy efficiency, grids, storage and electric mobility.

Figure 1: International explicit fossil fuel subsidies by energy source



Source: *CAN Europe based on Fossil fuel subsidies tracker and OECD data*

Whether they relate to production or consumption, **fossil fuel subsidies are damaging people and planet, in many cases benefit most the wealthiest, they are preventing the energy transition towards renewable energy systems and hampering the achievement of emissions reductions goals**. Among others,[9] they:

8 International Energy Agency, World Energy Investment 2022, https://www.iea.org/reports/world-energy-investment-2022/overview-and-key-findings

9 See, for example: Fuel to the fire — 42 reasons why fuel tax cuts and price caps just add fuel to the fire. The Ecologist, https://theecologist.org/2023/jan/30/fuel-fire

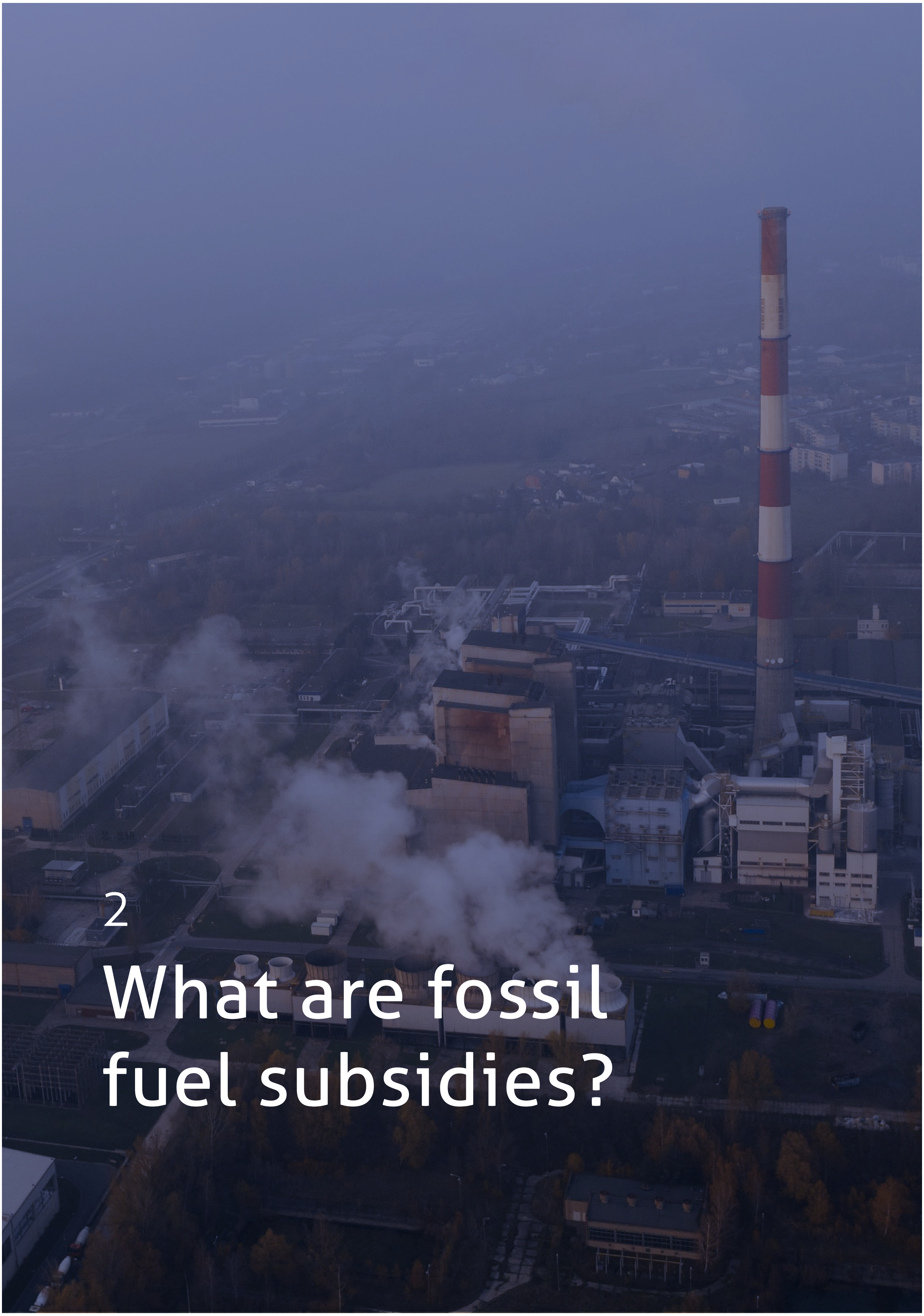
- Undermine the effectiveness of **carbon price signals**. Subsidies on the use of fossil fuels reduce incentives for consumers to reduce and replace harmful consumption patterns. On the production side, they incentivise investments in fossil fuel infrastructure, while putting renewable energy and energy-efficiency investments at a competitive disadvantage;

- **Waste precious public resources** that are needed for the just energy transition and climate action: phasing out and redirecting fossil fuel subsidies could contribute to mobilizing additional public investments in renewable energy, particularly wind and solar, energy efficiency, transmission and distribution infrastructure for electrification, and demand-side flexibility options including storage, batteries and electrified transport as well as their enablers such as smart-meters.

- Increase the **risks of 'locking in'** high-carbon investments and of investing in assets which need to be decommissioned before the end of their lifetime;

- Contribute to **damaging the ocean** and negatively impacting its ability to sequester carbon as fuel subsidies favour fuel-intensive fishing methods which ultimately cause the most harm to marine biodiversity and ecosystems;

- Contribute to **damaging public health**, as they favour the leading source of air pollution;



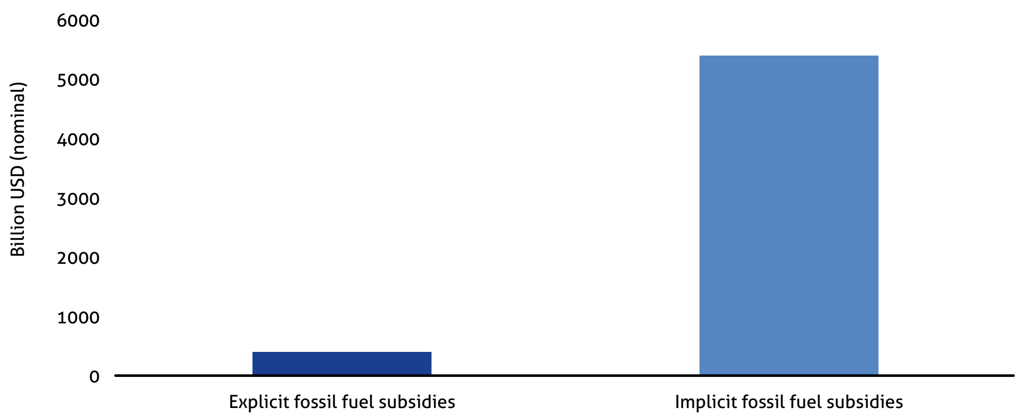
2

What are fossil fuel subsidies?

2.1. Main categories of fossil fuel subsidies

Fossil fuel subsidies may take the form of tax exemption or tax reduction, budget transfers, income and price support, and the under-pricing of products. Fossil fuel subsidy removal is projected by various studies to reduce global CO2 emissions by 1–4%, and greenhouse gas emissions by up to 10% by 2030, varying across regions.[10] While direct annual fossil fuel production and consumption subsidies are large with estimated costs of up to USD 1 trillion, the largest subsidies, as shown by the International Monetary Fund (IMF), are the so called "external costs" of fossil fuels, mainly from air pollution and climate damages which have to be paid by all citizens.[11] In CAN Europe, we frame these implicit subsidies as "real costs".[12]

Figure 2: Explicit vs. implicit fossil fuel subsidies internationally in 2020



Source: *CAN Europe based on IMF data*

10 Climate Change 2022, Mitigation of Climate Change, Working Group III Contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, 2022, https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_SPM.pdf

11 IMF, Global Fossil Fuel Subsidies Remain Large: An Update Based on Country-Level Estimates, 2019, https://www.imf.org/en/Publications/WP/Issues/2019/05/02/Global-Fossil-Fuel-Subsidies-Remain-Large-An-Update-Based-on-Country-Level-Estimates-46509

12 CAN Europe, The real costs of coal in Muğla, 2019, https://caneurope.org/content/uploads/2019/08/The-Real-Costs-of-Coal-Mugla_Full-Report_Final.pdf

Energy subsidies can be:

- **Direct**: changes in effective tax rates (e.g. tax exemptions, tax rebates and tax credits) or grants and guarantees offering incentives to use one source of energy over another.

- **Indirect**: market interventions (e.g. quantitative exports or imports restrictions, administrative price setting), underpricing of permits and licenses, preferential loan interest, shifting of risks, ignored or underpriced externalities (greenhouse gas emissions (GHG), pollution, waste, depletion of natural resources).[13] These underpriced externalities are also called implicit subsidies.

- **Implicit**: this is the hidden costs of fossil fuels (unpaid externalities), such as their impacts on air pollution and global warming — they are a kind of subsidy because polluters are not paying for the damage they cause. The International Monetary Fund calculated total fossil-fuel subsidies in 2020 at almost 7% of global gross domestic product (GDP), largely as a result of these external costs (92% of all global fossil fuel subsidies). Underpricing for local air pollution costs is the largest contributor to global fossil fuel subsidies, followed by global warming costs, congestion and road accidents, explicit subsidies and foregone consumption tax revenue. For Europe, the IMF calculated that total (explicit plus implicit) subsidies are at about 2 percent of the regional GDP. For the European Union, this would represent $279 billion in 2020. [14]

- **Production subsidies** are tax breaks or direct payments that reduce the cost of producing coal, oil or gas. These are common in Western countries and are often influential in locking in infrastructure such as oil pipelines and gas fields. Production subsidies can focus on lowering operational costs (ongoing) or capital costs (one-off).

- **Investment subsidies are a subset of production and consumption subsidies,** consisting of reducing the cost of capital for new fossil fuel infrastructure, or for additional capital expenditures of existing infrastructure. They can take the form of direct concessional credit (i.e. below market cost), the provision of public guarantees which indirectly lower borrowing costs and other financial

13 European Court of Auditors, Energy taxation, carbon pricing and energy subsidies, 2022, https://www.eca.europa.eu/Lists/ECADocuments/RW22_01/RW_Energy_taxation_EN.pdf

14 IMF, Still Not Getting Energy Prices Right: A Global and Country Update of Fossil Fuel Subsidies, 2021, https://www.imf.org/en/Publications/WP/Issues/2021/09/23/Still-Not-Getting-Energy-Prices-Right-A-Global-and-Country-Update-of-Fossil-Fuel-Subsidies-466004

instruments that lower the cost of capital for fossil fuel producers. Investment subsidies reduce the risk of these investments, hence artificially making them more attractive for investors than they would otherwise be. Most large-scale fossil fuel projects in the EU, including fossil-based electricity plants or pipelines, have historically benefited from various forms of investment subsidies through EU funds, public investment banks, or Member States themselves. Similarly, at a household level, several EU funds and national programmes are still covering part of the capital investment for the installation of fossil gas boilers.

- **Consumption subsidies** cut fuel prices for the end user, such as by fixing the price at the petrol pump so that it is less than the market rate. Given the challenging economic circumstances for many people in Europe, especially the poorest, energy price relief on electricity and heating has been used as an important form of social support. However, such support has serious disadvantages: it sends the wrong signal to the people, distorts prices, makes energy efficiency investments less attractive, and may result in wasting energy. Therefore, direct monetary support should target those in need — which has unfortunately not been the case for most of the recent subsidies following the fossil fuel price crisis. There is also a large number of sector-specific fossil fuel subsidies — for the fishing sector, for road freight, for farming, etc. and many of these specific categories may not have a business case without these subsidies, as they are dependent on fossil fuel but also because they have to face unfair competition due to a race to the bottom on labour cost, aggravated by free trade policies. For example, fuel subsidies reduce the costs of fishing, therefore leading to an increase of fishing capacity, and thus contributing to continued overfishing in the ocean.[15] Accompanying the people working in these sectors that heavily rely on these subsidies is absolutely critical, and requires adequate consultation, time and resources.

15 Our Fish, Climate Impacts & Fishing Industry Profits From EU Fuel Tax Subsidies, 2021, https://stopfossilfuelsubsidies.eu/2021/09/20/report-climate-impacts-fishing-industry-profits-from-eu-fuel-tax-subsidies/

2.2. No EU definition of fossil fuel subsidies

The EU does not have a definition for fossil fuel subsidies, but defines subsidies as 'an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities'.[16] There is, however, an internationally agreed definition of subsidies. The WTO typology is now commonly used by several international institutions such the OECD[17], IRENA, UNEP[18] and various NGOs. It is also the definition used by the European Commission in the 2021 report on the State of the Energy Union.[19]

In its Agreement on Subsidies and Countervailing Measures (ASCM), the World Trade Organization (WTO) defines a subsidy as 'any financial contribution by a government, or agent of a government, that is recipient-specific and confers a benefit on its recipients in comparison to other market participants' (WTO, 1994).[20] This definition includes:

- direct transfer of funds (e.g. grants, loans and equity infusion), and potential direct transfers of funds or liabilities (e.g. loan guarantees)
- government revenue that is otherwise due, foregone or not collected (e.g. fiscal incentives such as tax credits)
- government provision of goods or services other than general infrastructure, or purchase of goods, below market-value
- income or price support.

16 European Commission, https://competition-policy.ec.europa.eu/state-aid/state-aid-overview_en

17 The OECD broadly defines energy subsidies as measures that keep consumer prices below market level, keep producer prices above market level, or reduce costs for consumers or producers.

18 UNEP, Measuring Fossil Fuel Subsidies in the Context of the Sustainable Development Goals, 2019, https://www.unep.org/resources/report/measuring-fossil-fuel-subsidies-context-sustainable-development-goals

19 Study on energy subsidies and other government interventions in the European Union: Final report, 2020, https://op.europa.eu/en/publication-detail/-/publication/92ae71b0-173a-11eb-b57e-01aa75ed71a1/language-en

20 ODI and CAN Europe, Phase-out 2020: Monitoring Europe's fossil fuel subsidies, 2017, https://cdn.odi.org/media/documents/11762.pdf

Definitions based on the WTO classification and its variants reflect so-called "explicit" subsidies i.e. tangible fiscal support measures provided by States to fossil fuels. They do not include "implicit" fossil fuel subsidies (unpriced, or underpriced damages).[21]

While not providing a definition, the Governance Regulation (Annex I) includes reporting requirements for Member States to be included in their National Energy and Climate Plans (NECPs). In the NECPs, Member States are required to include "where applicable, national policies, timelines and measures planned to phase out energy subsidies, in particular for fossil fuels". Reporting on fossil fuel subsidies in current NECPs, however, is overall low to medium-low in quality, and involves underestimations. 15 Member States did not report fossil fuel subsidy data, 8 countries have announced plans to phase-out fossil fuel subsidies but that does not necessarily happen in practice.[22]

The European Climate Law adopted in June 2021 amended Article 17 of the Governance Regulation, specifying that "the Commission shall adopt implementing acts to set out the structure, format, technical details and methodology for the reporting, including on the phasing out of energy subsidies, in particular for fossil fuels". On 15 November 2022, this implementing act was published.[23] It states that Member States shall report "the information on progress towards the national *objectives* to phase out energy subsidies, in particular for fossil fuels" (Article 6), and "on the policies and measures [...] concerning the phasing out of energy subsidies, in particular for fossil fuels" (Article 12). The Annex to the implementing act contains two templates for reporting on both fossil fuel subsidies phaseout *objectives* and *policies and measures* (Annexes VIII and XV respectively), which should lead to more uniform reporting practices across Member States, eliminating most existing data gaps.

21 IMF, Still Not Getting Energy Prices Right: A Global and Country Update of Fossil Fuel Subsidies, 2021, https://www.imf.org/en/Publications/WP/Issues/2021/09/23/Still-Not-Getting-Energy-Prices-Right-A-Global-and-Country-Update-of-Fossil-Fuel-Subsidies-466004

22 European Commission, Directorate-General for Energy, Lee, L., Rademaekers, K., Bovy, P., et al., Study on energy subsidies and other government interventions in the European Union : final report, 2021, https://op.europa.eu/en/publication-detail/-/publication/be5268ba-3609-11ec-bd8e-01aa75ed71a1/language-en

23 Commission implementing regulation laying down rules as regards the structure, format, technical details and process for the integrated national energy and climate progress reports, (EU) 2022/2299, 2022, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022R2299&qid=1669912064557

While this effort towards uniformity is welcomed, the above-mentioned implementing act refers to the NECPs progress report documents — which Member States have to submit for the first time in March 2023 — and not to the upcoming revision of the actual plans, whose drafts are due to be submitted in June 2023. Regrettably, the guidance document for the revision of the NECPs — also published on 15 November 2022 — barely mentions fossil fuel subsidies and provides no guidelines for Member States on the development of phaseout plans.[24]

RECOMMENDATIONS:

- The EU should embrace the WTO and UNEP **definition** of fossil fuel subsidies, but expanding it in order to also include implicit subsidies (based on the IMF definition).
- The **National Energy and Climate Plans (NECPs),** to be revised in 2023–2024, should be used by Member States to increase transparency of fossil fuel subsidies through consistent monitoring and reporting on such subsidies, progress in phasing them out and a timeline for ending them, including annual milestones. Member States have a binding obligation to map fossil fuel subsidies in their NECPs, and should use this opportunity to propose a time-bound, comprehensive plan for their phase out. The templates provided for the NECP Progress Report — for reporting both on fossil fuel subsidies' phaseout objectives, as well as policies and measures — which Member States are required to complete, should be used as a starting point also for the upcoming NECPs revision process, to guarantee more uniformity across Member States. In addition, Member States should also include in their NECPs reporting on investments in fossil fuels by state-owned enterprises and majority publicly owned financial institutions.[25] This reporting should be made public and undertaken on a regular basis.

24 For more on how to report fossil fuel subsidies in NECPs, see ODI, Fossil fuel subsidies in draft EU National Energy and Climate Plans, 2019, https://odi.org/en/publications/fossil-fuel-subsidies-in-draft-eu-national-energy-and-climate-plans/

25 CAN Europe, CEE Bankwatch, CounterBalance, Friends of the Earth Europe & WWF, Europe in motion: Ending all public financial support for fossil fuels, 2017, https://caneurope.org/content/uploads/2017/10/FINAL-EU-Briefing-Policy-Recommendations_Fossil-Fuel-Subsidies-Phase-Out-Oct-2017.pdf

- The **reformed EU economic governance framework** should condition country-specific debt reduction pathways on the respect of the commitment to end fossil fuel subsidies. Member States should ensure that annual budgetary laws do not maintain such subsidies. Green budgeting practices should play a key role to support such a move, and be encouraged under the European Semester. Under a reformed EU economic governance framework, the European Semester and country-specific recommendations should systematically encourage Member States to put in place progressive (i.e. equitable) carbon pricing and taxation.

3

Fossil fuel subsidies in the EU

According to the European Commission, between 2008 and 2019 EU Member States provided €55 to 58 billion per year of explicit subsidies for fossil fuels.[26] This represents more than 10% of global annual fossil fuel subsidies. Of this amount more than 75% originate from tax expenditure, i.e. government revenue losses from tax exemptions, refunds and preferential tax rates. The largest share in tax expenditure was taken up by subsidies to petroleum products (€29bn in 2019). By far the main tax through which fossil fuel subsidies are granted are energy excise duties.

Since the implementation of the Energy Taxation Directive (ETD) in 2003[27], commercial shipping, aviation and the fisheries sector have been exempted from taxes which has been a stark contradiction with the EU Polluter Pays Principle. With the ongoing revision of the ETD as part of the European Green Deal, the Commission is proposing to end tax privileges enjoyed by these sectors in order to align taxation with the EU's climate objectives. While the ETD sets a minimum tax rate, it explicitly allows for differentiated treatment of different consumption categories (e.g. reduced rates for gasoil use in agriculture, or excise refunds on fuel use in commercial transportation). Furthermore, the proposed tax rate for the fishing industry is very low and does not correspond to the rate for the vehicles subject to road tax. It also does not apply to the largest vessels that go far to fish outside EU waters. For the aviation sector, it allows for a 10 year transition period during which the airlines would be paying minimal tax rates which represents a €35 billion subsidy.[28] As the ETD does not prescribe tax rates according to carbon content, it ultimately does not reflect the extent to which different energy sources pollute. Thus some lower carbon fuels are still taxed higher than fuels with high carbon content such as coal.[29]

Regarding long-term trends, there have been no signs of decline of fossil fuels subsidies: between 2015 and 2019, the total amount of fossil fuel subsidies grew by 4% in the EU, and a 2022 review of the European Court of Auditors found that fifteen Member States were still spending more on fossil-fuel subsidies than on renewable energy subsidies in 2019.[30]

26 European Commission, Directorate-General for Energy, Lee, L., Rademaekers, K., Bovy, P., et al., Study on energy subsidies and other government interventions in the European Union : final report, 2021, https://op.europa.eu/en/publication-detail/-/publication/be5268ba-3609-11ec-bd8e-01aa75ed71a1/language-en

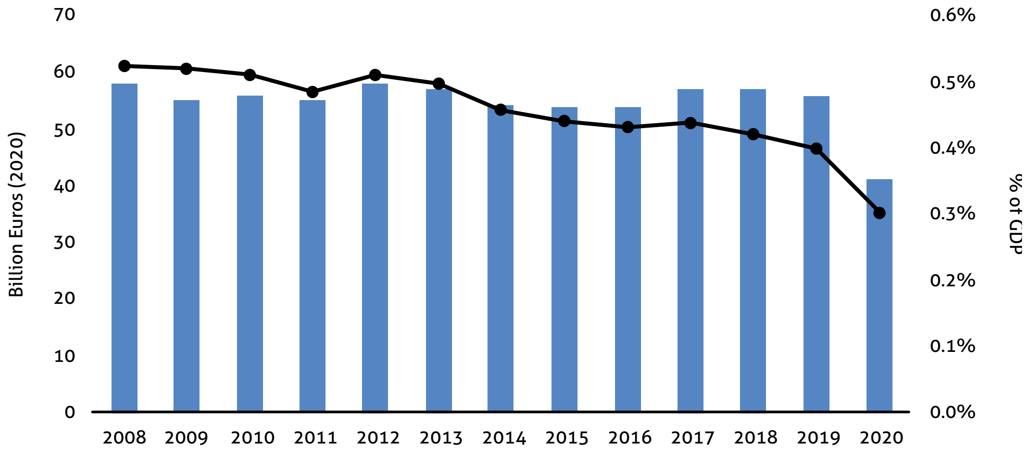
27 Directive restructuring the Community framework for the taxation of energy products and electricity, 2003/96/EC, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32003L0096&from=EN

28 Transport & Environment, Fit for 55: Energy Taxation Directive - ending one of aviation's most unfair tax privileges, 2022, https://stopfossilfuelsubsidies.eu/2022/11/02/fit-for-55-energy-taxation-directive-ending-one-of-aviations-most-unfair-tax-privileges/

29 Euractiv, EU's energy taxation policy contradicts climate goals, auditors say, 2022, https://www.euractiv.com/section/energy/news/eus-energy-taxation-policy-contradicts-climate-goals-auditors-say/

30 European Court of Auditors, Energy taxation, carbon pricing and energy subsidies, 2022, https://www.eca.europa.eu/Lists/ECADocuments/RW22_01/RW_Energy_taxation_EN.pdf

Figure 3: Explicit subsidies to fossil fuels in the EU27 (the black line represents the percentage of GDP)



Source: *CAN Europe based on European Commission and Eurostat*

Public financial support for fossil fuels in the EU comes from three sources — Member States' budget, the EU budget and its respective funds, and other EU financial instruments such as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). This is without accounting for implicit subsidies (see above).

Although there is no systematic recording of fossil fuel subsidies by source in the EU (i.e. distinguishing the origin of the expenditure), existing data suggests that the overwhelming majority of fossil fuel finance emanates from Member States' budgets. For example, an ODI and CAN Europe report covering the 2014–16 period suggests that EU budget instruments, and EU public banks and financial extra budgetary instruments combined, provided approximately €2 billion worth of subsidies annually[31]. This figure arguably pales in comparison to the annual subsidies of €54 billion provided by Member States over the same period, as estimated by the European Commission. Despite national budgets providing the lion's share of fossil fuel subsidies, EU budgetary or extra-budgetary instruments can play a key role in the provision of production subsidies, especially in Member States that heavily rely on EU funds. Indeed, the €2 billion subsidies provided by EU instruments are almost

31 CAN Europe, CEE Bankwatch, CounterBalance & Friends of the Earth Europe, Phase-out 2020: Monitoring Europe's fossil fuel subsidies, Brief on the European Union, 2017, https://cdn.odi.org/media/documents/11764.pdf

exclusively production-based subsidies (most notably investment subsidies for new fossil fuel infrastructure) and focus on a handful of countries where EU instruments are proportionately important in the national budget (CEE and Southern Europe). In short, despite their marginal size, their importance should not be underplayed (see Figure 4).

Figure 4: Annual fiscal support for fossil fuel production and consumption, by country and at EU level (million Euros, 2014-16 average)

Fiscal support	**Production**	**Consumption**	**Total**
Czech Republic	209	164	**373**
France	426	10,393	**10,819**
Germany	4,422	28,898	**33,320**
Greece	327	1,184	**1,510**
Hungary	127	109	**236**
Italy	4,245	12,360	**16,604**
Netherlands	669	3,752	**4,422**
Poland	397	157	**555**
Spain	943	768	**1,711**
Sweden	32	1,417	**1,449**
UK	1,247	15,812	**17,059**
EU	515	0	**515**
Total	**13,559**	**75,016**	**88,574**

Source: *ODI (https://cdn.odi.org/media/documents/11762.pdf)*

32 EEB, comments and proposals on the review of the Energy Taxation Directive, 2022, https://eeb.org/wp-content/uploads/2022/03/EEB-brief-ETD-final-31-March-2022-rev.pdf

Despite the recognition that fossil fuel subsidies remain a major barrier to the EU's Paris Agreement-compatible energy transition, there has been limited action to systematically address them across the EU and its Member States. The EU has not put in place mechanisms to document the full extent of fossil fuel subsidies, and therefore is not holding itself properly to account in achieving pledges to phase out fossil fuel subsidies. In addition the proposed ETD review is not sufficiently coordinated with other files of the Fit for 55 package and is unfortunately not part of a wider coordinated process of reform by EU Member States of their taxation systems, geared towards achieving climate and environmental protection objectives.[32]

3.1. At national level

In 2020, Member States' fossil fuel subsidies fell to €52 billion, principally owing to lower transport activities due to the pandemic. However, even before the invasion of Ukraine and the resulting fossil fuel price crisis, the Commission warned that fossil subsidies might pick up in the next few years again due to increasing consumption.[33] In 2020–21, support to fossil fuel industries as part of the non-EU funded national stimulus packages in response to the covid-19 pandemic has been significant in several Member States.[34] And, more recently, fossil fuel subsidies have increased in all Member States. For example, at least 18 EU member states have cut fuel taxes, to respond to the increase of energy price following the war in Ukraine.[35] These cuts to fuel taxes (excise duties) and indiscriminate price caps increase fossil fuels demand and in most cases are not targeted to shield low-income households.[36] For example, in the EU, the richest 10% of households spend 8 times more on diesel and petrol than the poorest 10%. In reality, the difference is much larger since wealthier persons are much more likely to drive company cars (which are usually larger and run much more than private cars) and these cars are not included in the household statistics.[37]

33 European Commission, Directorate-General for Energy, Badouard, T., Altman, M., Energy subsidies: energy costs, taxes and the impact of government interventions on investments : final report, 2020, https://op.europa.eu/en/publication-detail/-/publication/92ae71b0-173a-11eb-b57e-01aa75ed71a1/language-en

34 https://www.energypolicytracker.org/region/g20/

35 NGOs joint letter on alternative solutions to fossil fuel tax cuts, 2022, https://eeb.org/wp-content/uploads/2022/04/NGOs-joint-letter-alternative-solutions-to-fossil-fuel-tax-cuts.pdf and Transport & Environment, Cuts to fuel taxes, 2022, https://www.transportenvironment.org/challenges/climate-tools/fuel-taxes/cuts-to-fuel-taxes/. Practically all MS introduced new subsidies for other fossil fuels, especially gas: https://www.bruegel.org/dataset/national-policies-shield-consumers-rising-energy-prices

36 Bruegel, National fiscal policy responses to the energy crisis, 2023, https://www.bruegel.org/dataset/national-policies-shield-consumers-rising-energy-prices

37 https://www.transportenvironment.org/wp-content/uploads/2022/03/2022_03_study_fuel_excise_duty_measures.pdf

Although fiscal policy remains a national prerogative, the EU is playing a role in national spending decisions. Indeed, State aid[38] rules form the regulatory framework which sets boundaries to the resources that Member States can provide to companies (undertakings). State aid rules aim at preventing the distortion of competition on the market that can occur when Member States grant selective advantages or support to a company (or a group of companies). However, controlled State aid is necessary to address market failures, which is why Member States must notify State aid measures to the Commission. There are however exceptions to the mandatory notification obligation, such as for aid below certain low financial thresholds (De minimis aid) and straightforward aid measures under certain financial thresholds covered by a block exemption (for instance the General Block Exemption Regulation — GBER). This means that only high aid amounts and complex aid measures need to be notified in practice.

When it comes to the phase out of fossil fuel subsidies, existing State aid rules are inadequate. For example, the Climate, Energy and Environmental Aid Guidelines (CEEAG) that set out the way the Commission will assess the compatibility of aid for measures that touch upon climate, energy and environment still allow support for fossil gas[39], while the GBER allows support to fossil gas but to a lesser extent. State aid is also allowed for coal plant and mine operators as "compensations" for early closures when a national coal phase out date is announced. The internal market rules and climate action need to be put on equal footing, and the State Aid framework should be aligned with the objective of phasing out fossil fuel subsidies and accelerating the energy transition away from fossil fuels.[40]

Cases where the EC has decided to allow State aid for governments supporting fossil fuel-based energy and heavy industry projects are not declining. A specific type of State aid — the capacity remuneration mechanism[41] — has become a tool commonly used by Member States to remunerate the availability of electricity generation and

38 "any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods (...), in so far as it affects trade between Member States" (Art. 107 §1 TFEU)

39 ClientEarth, The new State aid guidelines for climate, environmental protection and energy 2022, 2021, https://www.clientearth.org/media/vw1ea11b/legal-briefing-on-the-ceeag-final-24-12-2021-corrected.pdf

40 CAN Europe, Response to public consultation on the revised Climate, Energy and Environmental Aid Guidelines (CEEAG), 2021, https://caneurope.org/can-europe-response-public-consultation-revised-climate-energy-environmental-aid-guidelines-ceeag/

41 CAN Europe, Capacity mechanisms must not become a lifeline to unprofitable coal, 2018, https://caneurope.org/capacity-mechanisms-must-not-become-a-lifeline-to-unprofitable-coal/

ensure that electricity supply permanently meets demand. Current widespread use of poorly designed capacity mechanisms by some Member States as direct subsidies for fossil fuels, runs counter to the EU's decarbonisation objectives, distorts price and investment signals, goes against the EU's internal energy market functioning and favours fossil fuels and nuclear generation to the detriment of renewable energy sources, energy efficiency and demand side management.[42]

3.2. At EU level

Despite progressively tightening the possibilities of financing fossil fuel infrastructure through EU funds over the past years, key EU funds such as the Recovery and Resilience Facility[43] and European Structural Investment Funds[44] still allow the financing of fossil gas infrastructure. In addition, some recent legislative proposals in the context of RepowerEU are backtracking on the EU's commitment of phasing out fossil fuel subsidies by 2025 by allowing oil and gas investments.[45]

EU budget funds

The possibilities to finance fossil fuel investments through EU budget instruments have progressively been tightened. For what concerns the EU budget, for example, a series of minor instruments have fully excluded the direct finance of fossil fuels — such as the Just Transition Fund. Larger EU instruments, such as the European Regional Development Fund (ERDF), the Cohesion Fund (CF) and the Recovery and Resilience Facility (RRF) still allow the financing of some midstream (distribution) and downstream (consumption) fossil gas investment infrastructure. The inclusion of fossil fuel related investments in Member States' Recovery and Resilience Plans has been documented in several publications.[46] For example, it is estimated that 16% of total energy investments in recovery plans are dedicated to fossil gas infrastructure, such as distribution and gas boilers.[47] Furthermore, approximately 20% of total

42 CAN Europe, CEE Bankwatch, CounterBalance, Friends of the Earth Europe & WWF, Europe in motion: Ending all public financial support for fossil fuels, 2017, https://caneurope.org/content/uploads/2017/10/FINAL-EU-Briefing-Policy-Recommendations_Fossil-Fuel-Subsidies-Phase-Out-Oct-2017.pdf

43 https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52021XC0218(01)&from=EN

44 https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32021R1060&from=EN#d1e32-252-1

45 CAN Europe, Comments on the proposal to amend the Recovery and Resilience Facility regulation in the context of REpowerEU, 2022, https://caneurope.org/comments-on-rrf-of-repowereu/

46 CAN Europe and CEE Bankwatch, Reaching for a green recovery: What holds back progress in ten EU recovery and resilience plans, 2022, https://caneurope.org/content/uploads/2022/02/2022_02_Reaching-for-a-green-recovery-CAN-Europe-Bankwatch.pdf

47 Green Recovery Tracker, Recovery investments and the European energy transition, 2021, https://assets.website-files.com/602e4a891047f739eaf5dfad/610127ec9366c37d62e3f1f4_GRT_2021_EU%20Energy%20and%20Recovery%20Deep%20Dive.pdf

Member States' investments in transport via the RRF are dedicated to road transport infrastructure that perpetuates a business-as-usual transport model and constitutes an indirect support to fossil fuels.[48] Many of these road constructions are made possible by a questionable EU cost-benefit analysis methodology.[49] In short, despite the EU's international commitment to phase out fossil fuel subsidies, and the presence of a "sunset clause"[50] for the ERDF and the Cohesion Funds, key EU budget instruments can be expected to finance fossil fuels over the current Multiannual Financial Framework (2021–27).

Other EU financial instruments

As with EU budget instruments, the possibilities to finance fossil fuel investments through other EU financial instruments have significantly shrunk. The EIB's revised energy lending policy has excluded the overwhelming majority of fossil fuel finance from its investment products, with minor exceptions concerning fossil gas related infrastructure. Despite remaining loopholes, its overall energy lending policy can be considered positive. However, indirect forms of support remain vis-à-vis transport infrastructure and agriculture.

On the other hand, both the Modernisation Fund and InvestEU still allow the financing of selected fossil gas investments mid-stream (distribution) and downstream (consumption), with similar provisions to the RRF and cohesion policy funds. The Modernisation Fund for example allows supporting building new gas units and fuel switch in existing units to gas in case of co-generation.[51]

The RRF has been amended in December 2022 to fund RePowerEU plans to accelerate the energy transition in response to the war in Ukraine. Regrettably, this reform opens the door to fossil fuel subsidies that were previously not allowed under the RRF. Up to 30% of the loans provided to each Member States to finance their RePowerEU chapter on energy transition can escape the DSNSH criteria. Such fossil fuel projects will have to be operational by the end of 2026, which represents yet another breach of the commitment to end fossil fuel subsidies in the EU budget by 2025. The European Commission will have to assess the necessity of such project,

48 Green Recovery Tracker, Recovery investments and the green mobility transition, 2021, https://assets.website-files.com/602e4a891047f739eaf5dfad/61bae8af36c9845474dbd030_GRT_2021_EU%20Mobility%20and%20Recovery%20Deep%20Dive.pdf

49 Clean Air Action Group, Contradictions in the evaluation of EU funding for road construction, 2023, https://www.levego.hu/sites/default/files/Contradictions-in-the-evaluation-of-EU%20funding-for-road-construction-final3.pdf

50 Gas projects are only eligible until the end of 2025.

51 Energy Monitor, Opinion: CEE countries must not spend EU money to finance natural gas in district heating, 2022, https://www.energymonitor.ai/sectors/heating-cooling/opinion-cee-countries-must-not-spend-eu-money-to-finance-natural-gas-in-district-heating

taking into account cleaner alternative measures — a vague wording which will have to be substantiated with robust criteria. Last but not least, oil investments are allowed in three countries (Hungary, the Czech Republic and Slovakia) "due to their specific dependence on crude oil and geographical situation".

Finally, the EBRD still allows the financing of virtually any fossil gas investment (including upstream) to 2023, as well as indiscriminate oil-to-gas fuel switching investments and "efficiency" investment to existing gas infrastructure and gas utilities.

Last but not least, the ETS free pollution permits are playing a role in shielding polluting sectors such as energy-intensive industries and aviation from paying the carbon price and thus prolonging the use of fossil fuels.

These trends are at odds with earlier commitments and with science, which tells us loud and clear that there is no place for fossil fuels in the EU energy mix if we want to keep global warming below 1.5°C. More than ever, honouring our commitments for phasing out fossil fuel subsidies is a sine qua non for accelerating the energy transition, and guaranteeing the EU and broader continent's energy security by phasing our dependence on fossil fuels.

RECOMMENDATIONS:

- **EU rules on State Aid** need to include a roadmap to fully exclude subsidies for fossil fuel-based (including the so called "low carbon" or "hydrogen ready") energy projects and industrial companies in line with the 2025 fossil fuel subsidy phase-out commitment. However, when short-term support for the fossil-fuel-based industry is needed[52], the European Commission needs to require a strict deadline within a Paris Agreement-Compatible timeline, as well as solid plans, to phase out existing State Aid that increases the exposure to fossil fuels. Transparency of State Aid decisions needs being improved in order to allow for NGOs and other actors to follow and to challenge them in the public interest if necessary (at the moment, State aid processes and decisions only recognise directly impacted parties eligible to legally challenge and intervene)[53]. State aid support must directly reach affected workers and communities to compensate for potential loss of income and well-being, as well as facilitate the transition from a carbon-intensive sector to green jobs. It should not compensate fossil fuel companies' loss in profits.

- The EU should exclude any possibility of using **EU funds** for new fossil fuel investments and infrastructure projects which increase fossil fuel use. This includes immediately closing all the loopholes that remain in several large EU funding instruments including the RRF and Cohesion policy funds and permanently exclude all fossil fuel finance from 2025 onwards.

52 I.e. when there is an immediate risk of a crucial industry going bankrupted which would impact the whole economy of a Member State.

53 CAN Europe, Aarhus Regulation revision broadened the scope of acts that can be challenged in court, but still limits access to justice, 2021, https://caneurope.org/aarhus-regulation-revision-broadened-the-scope-of-acts-that-can-be-challenged-in-court-but-still-limits-access-to-justice/

- **Implicit subsidies** need to end. **Free pollution permits under the EU Emissions Trading System (ETS) need to be phased out** as soon as possible and auctioning must become the only way to allocate ETS emission allowances. Handing out free allowances and compensating companies for indirect costs should not be allowed under the ETS. It is imperative that the ETS and its related financial flows adhere to the broad principle that polluters should pay and that no financial support should be given to fossil fuel based, nuclear energy production, or biomass co-firing.[54] The **Emissions Trading System (ETS)** should ensure the application of the polluter pays principle across all the sectors that it covers. It needs to deliver a swift phase out of free allowances handed out to polluters or at least apply strict conditionalities in order to better incentivise the reduction of fossil fuel use by regulated entities[55] Member States have the responsibility to ensure that national policies are aligned with EU-level carbon pricing policies and do not result in contradictory incentives (e.g. through complementary tax reliefs to mitigate the impacts of the ETS extension), while protecting vulnerable and energy poor households (see below).

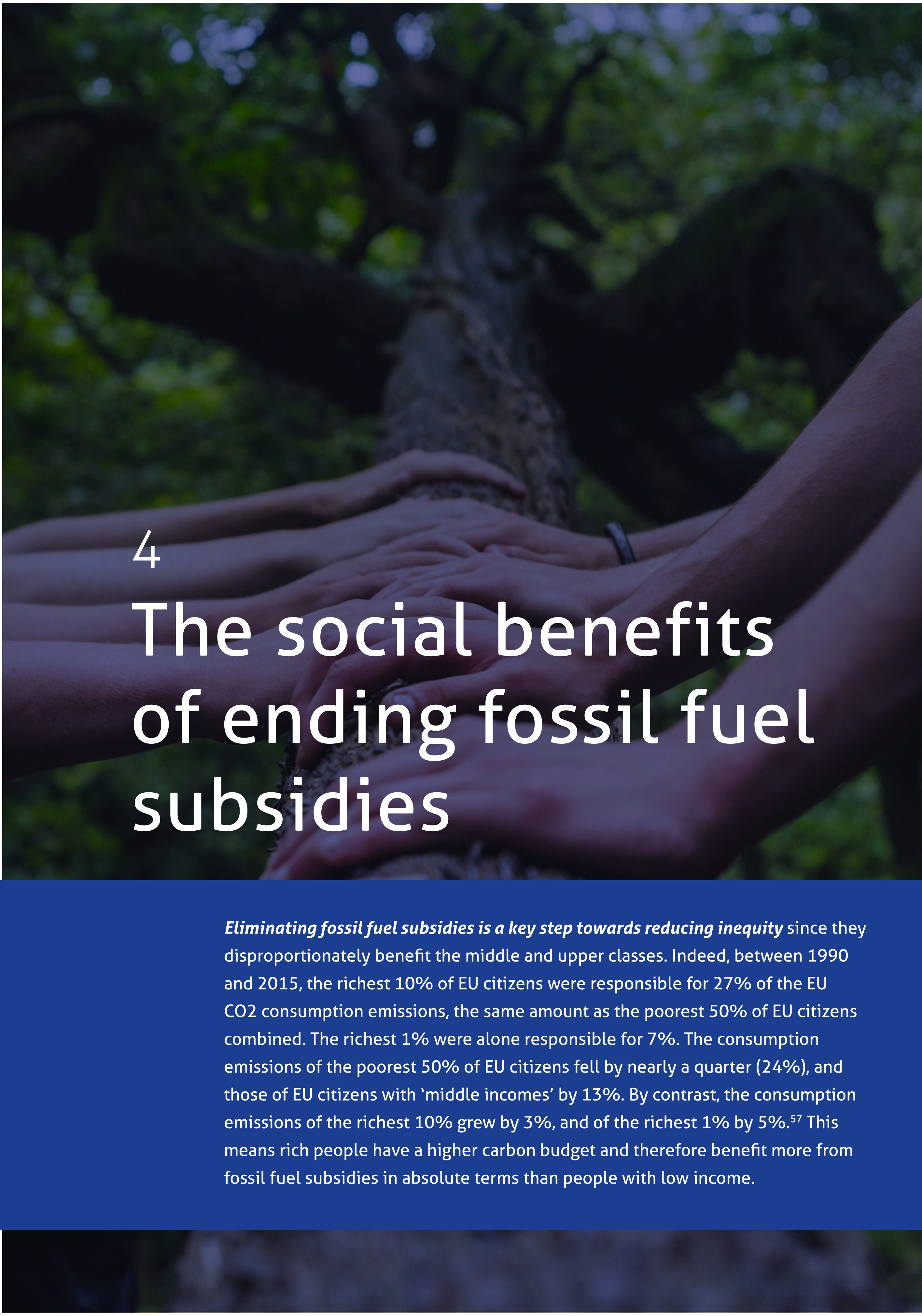
- Although **the EU Taxonomy regulation** targets the classification of "sustainable" activities for private investors and companies, it can indirectly affect public investment and public policies more broadly. For example, both the Recovery and Resilience Facility Regulation and the CEEAG (State Aid rules) refer to the Do No Significant Harm (DNSH) principle of the EU Taxonomy regulation[56]. Given that the Complementary Delegated Act (CDA) of the EU Taxonomy regulation on fossil gas and nuclear classifies some fossil gas investments as "green" under certain conditions, this can have an impact on subsidies for fossil gas in EU Member States. Beyond the fact that the CDA is currently facing legal challenges by CSOs and some Member States, links between public instruments and the CDA should be amended, and public policy should adopt as a basis a science-based DNSH criteria (i.e. uncompromised EU Taxonomy considering solely the first delegated act).

- A **reformed EU economic governance framework** should apply green budgeting tools on national budgets to encourage upholding the common climate and environmental objectives in national public spending, and to ensure that environmentally harmful subsidies, in particular fossil fuel subsidies, are terminated in a socially just manner. If this is not the case, additional fiscal space may translate in a continuation or even an increase of environmentally harmful spending in national budgets. In addition, reforms included in the national fiscal-structural plans should systematically include a mandatory phase out of fossil fuel subsidies, as well as progress towards green and progressive taxation.
- The **revision of the Energy Taxation Directive** (ETD) must not only eliminate fossil fuel subsidies in the form of tax exemptions for fuel in aviation, fisheries and maritime sectors, but also ensure that all energy products are taxed according to their energy and carbon content. It should also take into account the negative externalities, such as impacts on the environment and health. Last but not least, the review of the ETD should be part of a wider and coordinated process of reform by EU Member States' of their taxation systems, geared towards achieving climate and environmental protection objectives.

54 CAN Europe, CEE Bankwatch, CounterBalance, Friends of the Earth Europe & WWF, Europe in motion: Ending all public financial support for fossil fuels, 2017, https://caneurope.org/content/uploads/2017/10/FINAL-EU-Briefing-Policy-Recommendations_Fossil-Fuel-Subsidies-Phase-Out-Oct-2017.pdf

55 CAN Europe, Klima-Allianz Deutschland, Germanwatch and WWF Germany, Study on planned EU Emissions Trading System 2 raises strong concerns among NGOs, 2022, https://caneurope.org/study-on-planned-eu-emissions-trading-system-2-raises-strong-concerns-among-ngos/

56 ClientEarth, REPowerEU: Updating EU Legislation to Make the EU Independent from Russian Fossil Fuels, 2022, https://www.clientearth.org/media/zkwjwc5t/clientearth-comments-repowereu-regulation-proposal_2022.pdf



4

The social benefits of ending fossil fuel subsidies

Eliminating fossil fuel subsidies is a key step towards reducing inequity since they disproportionately benefit the middle and upper classes. Indeed, between 1990 and 2015, the richest 10% of EU citizens were responsible for 27% of the EU CO_2 consumption emissions, the same amount as the poorest 50% of EU citizens combined. The richest 1% were alone responsible for 7%. The consumption emissions of the poorest 50% of EU citizens fell by nearly a quarter (24%), and those of EU citizens with 'middle incomes' by 13%. By contrast, the consumption emissions of the richest 10% grew by 3%, and of the richest 1% by 5%.[57] This means rich people have a higher carbon budget and therefore benefit more from fossil fuel subsidies in absolute terms than people with low income.

Consumption-based subsidies risk locking people into fossil fuels. These subsidies can benefit middle- and low-income people, but they also sometimes have a regressive social impact (for example company cars schemes benefitting disproportionately high and middle-class male workers). Another example of luxury consumption emissions being left off the hook is the exclusion of yachts from the scope of the recent agreement on ETS2. This means that the rich boating around the Mediterranean in mega-yachts won't be taxed for the fuel they use, while the average person in a rural area driving to work because of the absence of public transport alternative will be taxed. On top of the fact that they won't fall in the scope of ETS2, yacht fuels already get generous excise tax exemptions in most touristic countries of the EU — i.e. fossil fuel subsidies — to attract boating tourism. Current EU excise duty rules indeed allow Member States not to tax fuel used by a navigation company for commercial purposes, i.e. the sale of sea navigation services.[58] This being said, when they benefit low-income households, removing fossil fuel subsidies has a direct impact on people's energy bill and increase energy poverty if not well sequenced and accompanied with appropriate flanking measures.

Recently, to cushion households from the energy price increase resulting from our dependency on Russian fossil fuel, a majority of Member States adopted new fossil fuel consumption subsidies.[59] However, most of these subsidies have not been targeted to support people in need. Such support needs being targeted and go with structural reforms to address prevailing inequalities and energy poverty. Short term support measures should be accompanied by measures ensuring beneficiaries can move away from fossil fuels towards renewable energy, otherwise they risk being locked into fossil fuel dependence for longer. Member States should embrace a broader approach to support low and middle-income households to get out of fossil fuel dependency, providing financial support to renovate homes to make them more energy efficient, and investing in public transport to better connect suburban and rural areas. The sequencing of fossil-fuel phase out and flanking policy measures is important. Temporary income support combined with support and obligation of longer term investments in clean alternatives is key. The adoption of the Social Climate Fund is a step in the right direction, but it will not be sufficient to be transformational. Indeed, beyond the compensatory approach (so-called revenue recycling), social protection, minimum income and minimum wage have a key role to play to fight energy poverty.

57 Oxfam media briefing, Confronting Carbon Inequality in the European Union, 2020, https://oi-files-d8-prod.s3.eu-west-2.amazonaws.com/s3fs-public/2020-12/Confronting%20Carbon%20Inequality%20in%20the%20EU_0.pdf

58 See https://ec.europa.eu/commission/presscorner/detail/PT/IP_18_6265

59 In Poland for example, one-time subsidy worth €642 has been allocated to all households that claim to use coal.

Air and water pollution is reported to disproportionately affect low-income people because the place where they live is more exposed — and thereby cheaper.[60] A 1% increase in CO_2 emissions increased health expenditure by 2.5%, while the WHO has shown that 12% of all deaths in OECD Europe can be attributed to preventable environmental conditions.[61] Curbing air pollution could save 500,000 lives per year in the EU. Air pollution goes with a huge cost in terms of public health budgets. Therefore, ending fossil fuel subsidies will have a positive impact on pollution and public health — and consequently on public budgets.

RECOMMENDATIONS:

EU Member States should:

- In the short run, providing lowest-income households, energy poor or people at risk of energy poverty with **support to cope with high energy costs** arising from the dependence on fossil fuels may be needed, for instance in the form of direct income support. These measures help shield households from unbearable price increases (through means-testing or other similar measures) and guarantee the respect of their fundamental rights (to adequate housing, decent standard of living, health, etc). Such support measures must be temporary, designed with the intention to facilitate the gradual participation of the lowest-income-households in the just energy transition, and accompanied by measures which oblige and support energy efficiency improvements and uptake of renewables. Would that not be the case, there is a high risk to lock people less resourced in fossil fuel even longer.
- **Identify who may be adversely affected** by the removal of fossil fuel subsidies, how this adverse impact could potentially be mitigated, what are the social benefits and how they could interplay (social, distributional and employment impact ex-ante assessments).

60 Worth Health Organisation Europe, Environment and health risks: A review of the influence and effects of social inequalities, 2010, https://www.euro.who.int/__data/assets/pdf_file/0003/78069/E93670.pdf

61 Apergis et al, 2020, https://derby.openrepository.com/bitstream/handle/10545/624560/Apergis_Bhattacharya_Hadhri_Carbon%20emissions%20and%20health%20care%20expenditures.pdf?sequence=4

- **Implement policies methodically** so that households can anticipate to minimise potential negative impacts of the termination of fossil fuel consumption subsidies, and maximise the benefits stemming from energy savings and renewables. This means ensuring that forward-looking investments and support measures are in place, especially for low income people, *before* the new policy comes into effect, and incentivising transition to technologies which run on sustainable renewable sources, as well as energy savings.

- **Among the mitigation flanking measures** going with the removal of subsidies for the use of fossil fuels in heating, Member States need to consider:

    - Implementing energy efficiency measures as a priority, especially among people affected by energy poverty, low-income households, and people at risk of energy poverty.

    - Establishing a minimum share of the required amount of cumulative end-use energy savings within the energy savings obligation, in particular among people affected by energy poverty, low-income households, vulnerable customers and, where applicable, people living in social housing.

    - Large-scale deep energy efficiency retrofit programmes encompassing works on envelope, deployment of renewable-heating solutions and on-site renewable energy production (i.e. solar energy).

    - Large-scale, long-term subsidy programmes including grants and interest-free loans (for households with low-ability to pay) and part-subsidies and interest-free or low-interest loans (for able-to-pay households), along with pre-financing mechanisms (i.e. revolving funds, guarantee loans etc), in order to support the switch to electrified and renewable heating and cooling solutions in the most inclusive way possible.

- Regulation requiring public and private sector landlords to do retrofitting of heating, cooling and ventilation systems and switch to renewable energy sources heating and cooling options available in their area prior to the removal of fossil fuel subsidies for heating and cooling.

- Progressive social-ecological taxes to decarbonize investments and generate additional resources to protect and promote social rights[62]

- Redirect support in the fisheries sector and rebuild fish populations to ensure improved socio-economic conditions for all fishers. In the fisheries sector, fuel subsidies are the most unfair form of support as they disproportionately benefit larger, polluting and more destructive fishing fleets leaving small-scale low-impact fishers with depleted fishing grounds. Moreover, fuel subsidies are a very inefficient means of supporting incomes. Removing these subsidies would not necessarily entail a reduction in overall support for the fisheries sector but the money could be repurposed for better use.[63]

62 ETUI, Eloi Laurent, From Welfare to Farewell: the European social-ecological state beyond economic growth, 2021, https://www.etui.org/publications/welfare-farewell

63 Carpenter, Griffin & Skerritt, Daniel, Why eliminating fuel subsidies from EU fisheries is good for public finances, the marine environment, and the climate, 2021, https://stopfossilfuelsubsidies.eu/2021/11/22/why-eliminating-fuel-subsidies-from-eu-fisheries-is-good-for-public-finances-the-marine-environment-and-the-climate/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Fossil fuel subsidies, jobs and just transition

The removal of fossil fuel subsidies and the shift from fossil fuels to renewable energy and towards climate neutrality will have an impact on workers in carbon intensive sectors. The European Commission highlighted that there will be sectors in decline (coal/lignite, peat, oil shale, petroleum refineries, fossil-fuel based energy production and the automotive sector), while other sectors will transform (metals, chemicals, cement and fertilisers in particular).[64] The Joint Research Centre showed that the potential for onshore solar and wind energy, and jobs at risk in 2020–2030 in coal mines and power plants vary by sub-region within the EU. Moreover, a recent report by the International Energy Agency (IEA) shows that job growth in new energy transition sectors more than offsets a decline in traditional fossil fuel supply sectors, globally.[65]

RECOMMENDATIONS:

- The elimination of fossil fuel subsidies needs to be **part of a broader just transition approach, sector by sector.** Member States therefore need to have a granular assessment of the social and distributional impacts of the elimination of fossil fuel subsidies, and they must adopt the right accompanying policies to fairly spread the cost of this societal and economic transformation towards a carbon-free economic model. This needs to be done in consultation and with the effective involvement of social partners. Local and regional authorities, civil society organisations and other stakeholders also need being consulted about this societal transformation.

- Member States must ensure sufficient, timely and equitable access to **upskilling and reskilling.** Member States should make sure enough training schemes are made available, and public support is in place to make this impactful (i. e. adequate infrastructures for adult education, entry rules for workers, etc.). This may require employees in contracting sectors (such as coal, oil and certain automotive industry value chain manufacturing) to be made eligible for paid training leave. Upskilling and reskilling programmes should be made available free of charge to all who cannot afford to pay for it (i. e. means tested, whether or not they are unionised), or through salaried in-work training. Ideally, free childcare should be available for parents to ensure they can attend, and in some instances, subsidised transport may also be needed to ensure truly equitable access for all.

64 Commission Staff Working Document Accompanying the Proposal for a Council Recommendation on ensuring a fair transition towards climate neutrality, SWD (2021) 452, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021SC0452&qid=1643714268435

65 International Environment Agency, World Energy Employment report, 2022, https://www.iea.org/reports/world-energy-employment/executive-summary

- Very often the wages in polluting sectors are higher than the average market ones. If transition to a new job causes wage decrease for workers, state schemes should be provided to **ensure the working conditions do not deteriorate** (income support facilitating labour market transitions).
- **Collective bargaining** in sectors and companies is indispensable to organise the transition to new jobs/skilling/etc. Participatory methods are key to design phase out measures. The specific role of trade unions and social dialogue in the labour sector must be better promoted and protected, and their progressive erosion — which goes with rising wealth inequality — reversed.

6

International action

Inadequate financing for renewable energy and energy efficiency in developing countries remains a persistent problem, worsened by the economic impacts of the COVID-19 pandemic. Energy access remains a huge challenge particularly in least developed countries (LDCs). Developing countries require dramatically scaled up financing and investment for a renewable and energy efficient future which supports their development pathways, health and poverty reduction, and fossil fuel subsidy reform which answers to their particular needs and conditions, as set out in SDG 12 on fossil fuel subsidies.[66]

Investment in fossil fuels outweighs that of renewables and energy efficiency (gas projects in low- and middle-income countries are receiving more international public finance than any other energy source) and the gas industry increasingly sees its future growth in the Global South. The African Union has put considerable pressure on the EU on fossil gas investment, for example at the sixth EU Africa Partnership Summit in February 2022, where leaders agreed to respect Africa's use of its natural resources in energy transition and to support 'transition activities'. The war in Ukraine in addition led to the EU seeking an increase in fossil gas and LNG imports including from developing countries, in order to reduce its dependence on fossil fuels sourced from Russia. The RePower EU External Energy Strategy for example targets liquid natural gas (LNG) imports from Egypt and West Africa and fossil gas through pipeline diversification from Algeria and Azerbaijan, and to this end the EU has signed Memoranda of Understanding with a number of these countries to guide cooperation on energy. However while some of these countries are export-ready, much African gas infrastructure requires significant investment to ramp up exports to the EU. Additional fossil fuel production will lock developing countries into stranded assets, and fuel extractivist economic models that contribute to weakening governance and democracy, exacerbate inequalities and environmental damage. Such projects to date have done little to improve energy access and also generally provide little economic return at the domestic level. Emerging and developing economies are also set to account for the bulk of emissions growth in the coming decades unless much stronger action is taken to transform their energy systems. Public financing will be a key factor in determining gas development and export from developing countries, and increase in global gas demand. Alongside production it is important to recognise the predominance of fossil fuel consumption subsidies in many developing countries, and that any EU support for reform of consumption subsidies must pay attention to development goals, poverty reduction, gendered impacts and protection to poor and vulnerable communities.

66 United Nations, Global indicator framework for the Sustainable Development Goals and targets of the 2030 Agenda for Sustainable Development, A/RES/71/313, see on page 15: https://unstats.un.org/sdgs/indicators/Global%20Indicator%20Framework%20after%202022%20refinement_Eng.pdf

67 First made at the Pittsburgh summit in 2009, the G20 commitment has been reiterated at multiple subsequent summits, including Cannes (2011), Los Cabos (2013), Saint Petersburg (2013), Brisbane (2014), Antalya (2015), Hangzhou (2016), Hamburg (2017) and Osaka (2019). Nevertheless, G20 country support levels remain unchanged in nominal terms to those of a decade ago, at USD 159.3 billion in 2020 compared to USD 161.8 billion in 2010

Levers for reform of fossil fuel subsidies in the EU's external action mostly revolve around direct support through international public finance contributions (bilateral and multilateral flows), and of export credits or investment guarantees and insurances for exports or investments by Member States External Credit Agencies (ECAs) for national companies which export goods and services. The EU also provides a limited amount of technical assistance, which could be used to support fossil fuel subsidy phaseout plans and reform of regulatory frameworks relevant to the full range of fossil fuel subsidies. In addition the EU plays an important role in multilateral agreements in international fora. The EU and some Member States have taken some new steps at international level to drive progress on phasing out fossil fuel subsidies. This includes supporting inclusion of a commitment to phase out fossil fuel subsidies at COP26. However progress stalled at COP27. The EU's approach should be guided by equity, social considerations and just transition. And without stronger action at home, the EU is undermining its efforts at international level.

6.1. Driving action in international institutions

The EU and European governments have repeatedly made commitments to phase out fossil fuel subsidies at the G20[67] (G20 leaders have also called "on all nations to adopt policies that will phase out such subsidies worldwide"), at the G7,[68] and via the EU Foreign Affairs Ministers Council Conclusions.[69] In 2021 at COP26 there was a new focus on fossil fuels and fossil fuel finance in the Glasgow Climate Pact and a statement on phasing out international finance for fossil fuels endorsed by a number of European actors, the 'Glasgow Statement.'[70] The EU now needs to implement these commitments with integrity. It should also work to drive collective multilateral agreements, and reform at multilateral development banks (MDBs). Collectively EU Member States hold significant shares of the total voting rights on the boards of many MDBs, including the European Bank for Reconstruction & Development (EBRD) and the World Bank Group. At COP27 the EU also indicated its support for reviewing innovative sources of finance to resource the loss and damage fund, including fossil fuel taxation. However progress on fossil fuel finance phaseout largely stalled at COP27. To move forward, the EU needs to centre a much greater focus on equity and just transition in its approach to build alliances with developing countries, as well as address issues in the broader climate finance landscape where failure to deliver on commitments has damaged trust between developing countries and the EU.

Further the UN Special rapporteur on human rights and climate change recently made recommendations around fossil fuel financial disclosure and on addressing human rights impacts of fossil fuel investments. This would enable international action to address implicit costs of fossil fuels including on health paid by societies and communities.

68 G7 Ise-Shima Leaders' Declaratio, 2016, https://www.mofa.go.jp/files/000160266.pdf

69 Council conclusions on EU Climate Diplomacy: accelerating the implementation of Glasgow outcomes, 2022, https://data.consilium.europa.eu/doc/document/ST-6120-2022-COR-1/en/pdf

70 Statement on international public support for the clean energy transition, 2021, https://ukcop26.org/statement-on-international-public-support-for-the-clean-energy-transition/

THE EU AND ITS MEMBER STATES SHOULD:

- Work with partners in international fora to develop clear national roadmaps to phase out all fossil fuel subsidies by 2025 at the latest, with clear milestones and measures to ensure that it is the polluters who pay for it. It includes tax concessions, direct budgetary support, export credits and funds through bilateral and domestic Development Finance Institutions as well as direct and indirect (via financial intermediaries or via technical advice) finance through Multilateral Development Banks. The EU and its Member States should reflect their commitment to the Glasgow Statement in their voting patterns in MDBs. An equitable approach must be used, which takes into account specific needs and conditions of developing countries, and tackles negative impacts on development, people living in poverty, affected communities and workers, with a gender lens.

- Implement with integrity (i.e. no loopholes) the COP 26 Glasgow Statement on ending international public finance for fossil fuels and prioritizing public finance for clean energy within one year of signing. This means introducing exclusion policies covering all abated and unabated fossil fuel activities and with no back-sliding. EU governments and institutions which have not yet signed up, including EU Member States, the European Commission and the EBRD, should become signatories to the Statement, and fulfil the commitment within a year after signing it.[71]

71 See also Oil Change International, Promise breakers, 2023 [forthcoming].

- Support the adoption of oil and gas export finance restrictions at the OECD, following on from the coal-fired power sector understanding adopted in 2015 that restricted international export finance to coal.[72]

- Support the adoption of Climate Damages Taxes at international and/or national-level on upstream extraction of fossil fuels, to provide funding for the loss and damage fund, whose establishment was agreed at COP27[73], as well as for resilience/adaptation and a just transition.

- At the UNFCCC, the EU should build on its proposals to use fossil fuel taxation in negotiations on innovative sources of finance for loss and damage funding arrangements. It should make use of the Sharm El-Sheikh dialogues on Article 2, paragraph 1(c), of the Paris Agreement and its complementarity with Article 9 to achieve collective ambitious commitments at the UNFCCC on fossil fuel finance phaseout.

- The EU should facilitate litigation to hold accountable governments, business and financial institutions for their ongoing investments in fossil fuels and carbon intensive industries and the related human rights effects that such investments provoke.

72 See also Civil Society Joint Position: Oil and Gas Restrictions under the OECD Arrangement on Officially Supported Export Credits, https://docs.google.com/document/d/1gFsClV7OgTvuFIGBmf7l1BSI2BlbM5SDyevnBbCmHwM/edit

73 CAN Europe position: Who should pay the bill for Covid-19 recovery measures?, 2021, https://climatenetwork.org/resource/can-position-who-should-pay-the-bill-for-covid-19-recovery-measures/

6.2. The EU's Global Gateway Strategy and Export Credits

The EU's Global Gateway Strategy aims to align its external action financing towards common priorities including climate and energy. At the same time loopholes for fossil fuel financing remain open in the underlying external action instruments. These must be closed and financing tailored to the energy challenges in partner countries, which vary considerably according to the region.

Starting with the largest external action instrument, the Global Europe Instrument, challenges include improving energy efficiency and the just transition out of fossil-fuel based energy in 'EU Neighbourhood' areas and lower middle income countries, supporting universal energy access and clean cooking particularly in Least Developed Countries, and developing green industries and sectors for socio-economic transformation. A much larger proportion of financing in this instrument will be through blending and guarantees (aiming to 'crowd in' or mobilise private sector finance) through the European Fund for Sustainable Development Plus (EFSD+). The EFSD+ includes a 'Global Gateway' window (focusing on sectors including sustainable energy and clean transport), and a Sustainable Finance window. With other Development Finance Institutions (DFIs) as well as the EIB as beneficiaries, it is especially important that robust fossil fuel exclusion policies are used around the EFSD+.

The EU, as the Western Balkans[74] most significant contributor in funding as well as the main trade partner, must support the region transitioning away from fossil fuels. There is a potential risk of locking in the heavily coal dependent region in the fossil fuel spiral using EU public funds for financing flagship gas projects. The Economic and Investment Plan[75], the 9 billion EUR of the Instrument for Pre-Accession III[76], must fund targeted projects which will allow the region to reach the Green Agenda for the Western Balkans[77] climate neutrality goals, underpinning the Decarbonisation Roadmap of the Energy Community Treaty.

74 Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia.

75 The Economic and Investment Plan for the Western Balkans aims to spur the long-term economic recovery of the region, support a green and digital transition, foster regional integration and convergence with the European Union.

76 The Instrument for Pre-accession Assistance (IPA) governs EU support in the enlargement region, with financial and technical assistance since 2007, currently covering all of the Western Balkans and Turkey. For the multi-annual financial framework period 2021-2027, the IPA III budgetary envelope is €14.162 billion.

77 In line with EU ambition to become climate-neutral by 2050, the region has committed to achieving carbon neutrality by 2050, and to aligning with the European Green Deal's key elements by endorsing the Green Agenda for the Western Balkan (GAWB) at Sofia in 2020, and the GAWB Action Plan, at the Brdo Summit in October 2021.

Through the Global Gateway Strategy the EU is also exploring the possibility of establishing a European Export Credit Facility to complement the existing export credit arrangements at Member State level and align export credits towards its Strategy. Export credit agencies (ECAs) are the worst public finance actors, providing 11 times as much support for fossil fuels than clean energy, with $40 billion per year for fossils and just $3.5 billion for clean energy. There are processes underway on fossil fuel subsidies reform dialogue in the OECD and the EU supports the modernisation of the OECD arrangements on officially supported export credits. The Council adopted conclusions on export credits in March 2022, announcing the intention of Member States to determine by the end of 2023 in their national policies their own science-based deadlines for ending officially supported export credits to fossil fuel energy sector projects. While this is a step in the right direction, asking Member States to only come up with a plan by the end of 2023 is making a true phase out still very far away.

THROUGH THE GLOBAL GATEWAY STRATEGY AND ACTION ON EXPORT CREDITS THE EU AND MEMBER STATES SHOULD:

- Close loopholes allowing fossil fuel finance in external action instruments, except support for clean cooking solutions to tackle health and poverty impacts in limited circumstances.[78] A strong 'do-no-harm' list of investments should be set out for all instruments under the Global Gateway and around guarantee and blending operations of the European Fund for Sustainable Development Plus (EFSD+). This list could be modelled on Annex V of the InvestEU regulation, duly completed to exclude all fossil fuel activities as well as other damaging projects such as mega-hydro and nuclear.

78 CAN International position on fossil gas, 2021, https://climatenetwork.org/resource/can-international-position-fossil-gas/

- Provide technical assistance to support the development of fossil fuel subsidies definitions, phaseout plans, and regulatory frameworks on taxation reform and the polluter pays principle, aligning with development objectives, just transition principles, gender equality and poverty and inequality reduction goals.

- Scale-up adequate new and additional climate financing, investment, capacity-building, and technology transfer to support energy access and just and inclusive energy transition in developing countries.

- EU contributions to new Just Energy Transition Partnerships via Global Europe or bilateral flows must be geared towards providing an attractive alternative to fossil fuel investments, with no place for 'transition' fuel.

- Phase out insurance and guarantees for fossil fuel investments from European export credit agencies by the end of 2023 as the vague deadlines in the latest Council Conclusions on the topic miss the mark.[79] We need a firm deadline in line with the COP26 Statement already signed by 12 EU Member States.[80] Replace the current Regulation 1233/2011 with EU legislation based on the commitments adopted at COP26 that prevent further public financial support for fossil fuels. Such legislation must be fully informed by just transition principles and human rights and environmental due diligence standards.

- Bring all EU Member States export credit policies in line with the COP26 Statement before considering an EU export credit facility, as is proposed in the Global Gateway Strategy. First and foremost, Member State export credit agencies' policies should be brought in line with the EU climate goals before new instruments for export credits should be considered.

79 The Council adopted conclusions on export credits, 2022, https://www.consilium.europa.eu/en/press/press-releases/2022/03/15/the-council-adopted-conclusions-on-export-credits/

80 Statement on international public support for the clean energy transition, 2021, https://ukcop26.org/statement-on-international-public-support-for-the-clean-energy-transition/

6.3. Trade Policy

Trade policy could be a tool to cooperate with international partners on fossil fuel subsidy phaseout but it is currently not used to this effect. We urge the EU to change this, first of all by using existing WTO rules to increase transparency of fossil fuel subsidies, which is an important prerequisite to end them. Secondly, WTO rules must be strengthened to prevent fossil fuel subsidies and lead to their abolishment. In particular, current rules are unfit to challenge adverse effects of fossil fuel subsidies on renewable energy products and don't take into account the social and environmental externalities of fossil fuel subsidies. That's why a new WTO process on Fossil Fuel Subsidy Reform (FFSR) was launched. European countries and the EU should take an active role in this process and promote concrete proposals to reduce and phase out fossil fuel subsidies.

The fisheries subsidies agreement has shown though that these processes can take decades within the WTO context. That's why the EU must also use bilateral agreements to commit its trade partners to phasing out fossil fuel subsidies. This is particularly relevant for new trade agreements with other industrialised or newly industrialised countries such as Australia, New Zealand, Canada, India, Mexico, Chile, Mercosur or the United States. A differentiated approach should be taken in relation to developing countries and LDCs.

THE EU AND ITS MEMBER STATES SHOULD:

- Use existing WTO rules to increase transparency of fossil fuel subsidies.
- Take a leading role in negotiating new WTO rules to phase-out fossil fuel subsidies.
- Support the elimination of all fuel subsidies for the fishing industry at the WTO and Member States should ratify the partial agreement reached on the elimination of fisheries harmful subsidies.
- Use bilateral agreements with industrialised or newly industrialised countries to commit trade partners to phasing out fossil fuel subsidies. A differentiated approach should be taken in relation to developing countries and LDCs.

7
Fossil-free politics

The fossil fuel industry's influence on European decision making is undeniable and growing. By fossil fuel industry, we mean companies involved in the extraction of fossil fuels (coal, oil and gas); in building and operating infrastructure used to transport and/or store fossil fuels; companies involved primarily (more than 51% turnover) in trading and selling fossil fuels; and energy utilities who primarily (more than 51% of their turnover) consume fossil fuels to generate electricity. At least €251million[81] have been spent by just five oil and gas corporations (Shell, BP, Total, ExxonMobil and Chevron) and their lobby groups to buy influence in Brussels between 2010 and 2019 while the Von der Leyen Commission has met representatives and lobbyists of oil, gas and coal companies 500 times since the beginning of its mandate in 2019[82] — close to 1 meeting every working day.

Lobbyists for the gas, oil and coal industry companies are involved in every regional, national, European and international forum where political decisions are being made to try to fix the climate crisis. They have used their seat at the discussion table to water down ambitions, promote solutions that keep fossil fuels in the picture, get subsidies, and forestall urgently-needed action. They have slowed down progress for decades.[83]

To end fossil fuel subsidies and ensure that policy is conducted entirely in the public interest, we must cut fossil fuel interests out of our politics, similar to existing restrictions on the tobacco industry.[84] Some initiatives go in the right direction. For example, in The Netherlands, the government has announced to no longer support fossil fuel-related activities through its international trade instruments, such as trade missions and other diplomatic support.[85]

81 Fossil Free Politics, Big Oil and Gas buying influence in Brussels, 2019, https://www.fossilfreepolitics.org/news-resources/big-oil-and-gas-buying-influence-brussels

82 Fossil Free Politics, Von der Leyen's Commission meets 500 times with the fossil fuel industry in first half of its mandate, 2022, https://www.fossilfreepolitics.org/news-resources/von-der-leyens-commission-meets-500-times-with-the-fossil-fuel-industry-in-first-half-of-its-mandate

83 See https://www.fossilfreepolitics.org/news-resources/big-oil-and-gas-buying-influence-brussels and https://www.fossilfreepolitics.org/news-resources/von-der-leyens-commission-meets-500-times-with-the-fossil-fuel-industry-in-first-half-of-its-mandate

84 Fossil Free Politics: In depth demands, https://uploads-ssl.webflow.com/605b60ab53fde0b68d56a333/608130bc4a0f4c489f954001_FFP-Demands.pdf

85 Kamerbrief over uitfasering fossiele brandstoffen exportkredietverzekeringen en vergroening handelsinstrumentarium, 2022, https://www.rijksoverheid.nl/documenten/kamerstukken/2022/09/28/kamerbrief-inzake-stand-van-zaken-uitvoering-moties-en-toezeggingen-inzake-uitfasering-fossiele-brandstoffen-exportkredietverzekeringen-en-vergroening-handelsinstrumentarium

RECOMMENDATIONS:

We call upon the EU and its Member States:

- To end fossil fuel industry excessive weight on EU and Member States' decision-making processes. This includes ending meetings between government and EU officials and the fossil fuel industry (including state-owned fossil fuel companies), except when it is strictly necessary to enable lawmakers, regulatory bodies and public authorities to effectively regulate the industry, and accelerate the transition to a fossil free Europe. Where such interactions occur, they must be conducted transparently. Fossil fuel corporations and their representatives should be excluded from public institutions' expert and advisory bodies, as well as public research bodies. And restrictions should be introduced on moving from the public sector to the fossil fuel industry and vice-versa.
- To reject partnerships with the fossil fuel industry. This includes governments not accepting any sponsorship, partnership, gift or donation from fossil fuel companies or their representatives. and political parties and politicians shouldn't accept funding or donations in kind from the fossil fuel industry.
- The EU should champion similar commitments at international level.[86]

86 Kick big polluters out, Our demands, https://kickbigpollutersout.org/demands


FREE

8

CAN Europe recommendations on fossil fuel subsidies

This CAN Europe position explores the problem of fossil fuel subsidies, i.e. various forms of public financial support to fossil fuel production and consumption. It focuses on the EU's role domestically and globally for a rapid phase out of fossil fuel subsidies, as pledged repeatedly but not delivered on.

According to the European Commission, between 2008 and 2019 EU Member States provided €55 to 58 billion per year of explicit subsidies for fossil fuels. This represents more than 10% of global annual fossil fuel subsidies. Of this amount more than 75% originate from tax expenditure, i.e. government revenue losses from tax exemptions, refunds and preferential tax rates. There have been no signs of decline of fossil fuels subsidies: between 2015 and 2019, the total amount of fossil fuel subsidies grew by 4% in the EU, and a 2022 review of the European Court of Auditors found that fifteen Member States were still spending more on fossil-fuel subsidies than on renewable energy subsidies in 2019.

In 2020–21, support to fossil fuel industries as part of the non-EU funded national stimulus packages in response to the covid-19 pandemic has been significant in several Member States. More recently, fossil fuel subsidies have increased in all Member States. For example, at least 18 EU member states have cut fuel taxes, to respond to the increase of energy price following the war in Ukraine. These cuts to fuel taxes (excise duties) and indiscriminate price caps increase fossil fuels demand and in most cases are not targeted to shield low-income households. At EU level, amendments have been brought in December 2022 to the Recovery and Resilience Facility (RRF — an EU financial instrument adopted to allow Member States to recover from the pandemic-induced economic and social crisis), to allow the financing of fossil fuels.

Fossil fuel subsidies are damaging people and planet, in many cases benefit most the wealthiest, are preventing the energy transition towards renewable energy systems and hampering the achievement of emissions reductions goals by, among others:

- Undermining the effectiveness of **carbon price signals,** as they incentivize an increase in fossil fuel production and consumption by lowering the costs of fossil fuel production and/or use.

- **Wasting precious public resources** that are needed for the just energy transition and climate action: phasing out and redirecting fossil fuel subsidies could contribute to mobilizing additional public investments in renewable energy, particularly wind and solar, energy efficiency, transmission and distribution infrastructure for electrification, and demand-side flexibility options including storage, batteries and electrified transport as well as their enablers such as smart-meters.

- Increasing the **risks of 'locking in'** high-carbon investments and of investing in assets which need to be decommissioned before the end of their lifetime.
- Contributing to **damaging the ocean** and negatively impacting its ability to sequester carbon as fuel subsidies favour fuel-intensive fishing methods which ultimately cause the most harm to marine biodiversity and ecosystems.
- Contributing to **damaging public health**, as they favour the leading source of air pollution.

Recommendations

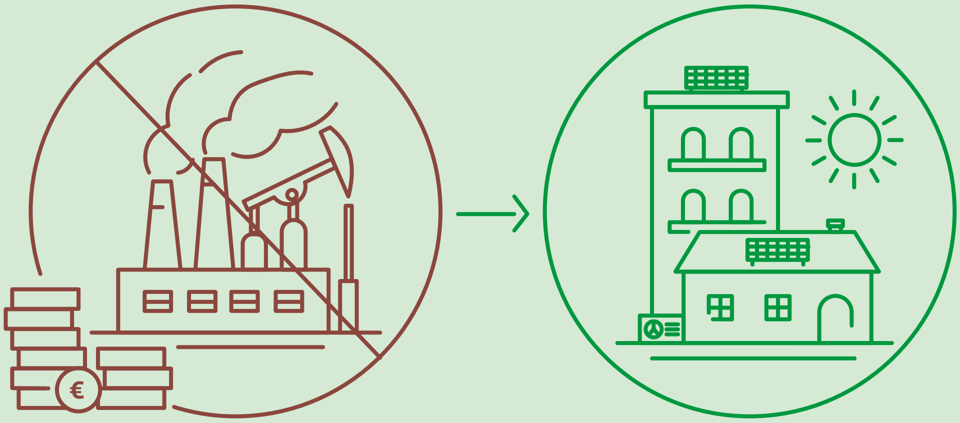
1. Definition and mapping of fossil fuel subsidies and phase out plans

- The EU should **embrace the WTO and UNEP definition of fossil fuel subsidies, but expand it** in order to also include implicit subsidies (based on the IMF definition).

- **The National Energy and Climate Plans (NECPs)**, to be revised in 2023–2024, should be used by Member States to increase transparency of fossil fuel subsidies through consistent monitoring and reporting on such subsidies, progress in phasing them out and a timeline for ending them with annual milestones. Member States have a binding obligation to map fossil fuel subsidies in their NECPs, and should use this opportunity to propose a time-bound, comprehensive plan for their phase out. The templates provided for the NECP Progress Report — for reporting both on fossil fuel subsidies' phaseout objectives, as well as policies and measures — which Member States are required to complete, should be used as a starting point also for the upcoming NECPs revision process, to guarantee more uniformity across Member States. In addition, Member States should also include in their NECPs reporting on investments in fossil fuels by state-owned enterprises and majority publicly owned financial institutions. This reporting should be made public and undertaken on a regular basis.

- The **reformed EU economic governance framework** should condition country-specific debt reduction pathways on the respect of the commitment to end fossil fuel subsidies. Member States should ensure that annual budgetary laws do not maintain such subsidies. Green budgeting practices should play a key role to support such a move, and be encouraged under the European Semester. Under a reformed EU economic governance framework, the European Semester and country-specific recommendations should systematically encourage Member States to put in place progressive (i.e. equitable) carbon pricing and taxation.

2. Ending fossil fuel subsidies in the EU



- **EU rules on State Aid** need to put a roadmap to fully exclude subsidies for fossil fuel-based (including the so called "low carbon" or "hydrogen ready") energy projects and industrial companies in line with the 2025 fossil fuel subsidy phase-out commitment. However, when short-term support for the fossil-fuel-based industry is needed, the European Commission needs to require a strict deadline within a Paris Agreement-Compatible timeline, as well as solid plans, to phase out existing State Aid that increases the exposure to fossil fuels. Transparency of State Aid decisions needs to be improved in order to allow for civil society organisations and other actors to follow and to challenge them in the public interest if necessary (at the moment, State aid processes and decisions only recognise directly impacted parties eligible to legally challenge and intervene). State aid support must directly reach affected workers and communities to compensate for potential loss of income and well-being, as well as facilitate the transition from a carbon-intensive sector to green jobs. It should not compensate fossil fuel companies' loss in profits.

- The EU should exclude any possibility of using **EU funds** for new fossil fuel investments and infrastructure projects which increase fossil fuel use. This includes immediately closing all the loopholes that remain in several large EU funding instruments including the Recovery and Resilience Facility and cohesion policy funds and permanently exclude all fossil fuel finance from 2025 onwards.

- **Implicit subsidies** need to end. **Free pollution permits under the EU Emissions Trading System (ETS) need to be phased out** as soon as possible and auctioning must become the only way to allocate ETS emission allowances. Handing out free allowances and compensating companies for indirect costs should not be allowed under the ETS. It is imperative that the ETS and its related financial flows adhere to the broad principle that polluters should pay and that no financial support should be given to fossil fuel based, nuclear energy production, or biomass co-firing. The **Emissions Trading System (ETS)**, which should ensure the application of the polluter pays principle across all the sectors that it covers, needs to deliver a swift phase out of free allowances handed out to polluters. Meanwhile, strict conditionalities should apply in order to better incentivise the reduction of fossil fuel use by regulated entities. Member States have the responsibility to ensure that national policies are aligned with EU-level carbon pricing policies and do not result in contradictory incentives (e.g. through complementary tax reliefs to mitigate the impacts of the ETS extension), while protecting vulnerable and energy poor households.

- Although **the EU Taxonomy regulation** targets the classification of "sustainable" activities for private investors and companies, it can indirectly affect public investment and public policies more broadly. For example, both the Recovery and Resilience Facility Regulation and the CEEAG (State Aid rules) refer to the Do No Significant Harm (DNSH) principle of the EU Taxonomy regulation. Given that the Complementary Delegated Act (CDA) of the EU Taxonomy regulation on fossil gas and nuclear classifies some fossil gas investments as "green" under certain conditions, this can have an impact on subsidies for fossil gas in EU Member States. Beyond the fact that the CDA is currently facing legal challenges by CSOs and some Member States, links between public instruments and the CDA should be amended, and public policy should adopt as a basis an uncompromised EU Taxonomy, considering solely the first delegated act.

- A **reformed EU economic governance framework** should apply green budgeting tools on national budgets to encourage upholding the common climate and environmental objectives in national public spending and the taxation systems and to ensure that direct and indirect environmentally harmful subsidies, in particular fossil fuel subsidies, are terminated in a socially just manner. If this is not the case, additional fiscal space may translate in a continuation or even an increase of environmentally harmful spending in national budgets. In addition, reforms included in the national fiscal-structural plans should systematically include a mandatory and timebound phase out of fossil fuel subsidies with annual milestones, as well as progress towards green and progressive taxation.

- The **revision of the Energy Taxation Directive** (ETD) must not only eliminate fossil fuel subsidies in the form of tax exemptions for fuel in aviation, fisheries and maritime sectors, but also ensure that all energy products are taxed according to their energy and carbon content directly or indirectly (e.g. in the form of distance- and emission-based road tolls and aviation passenger duties). The taxes should be of a level necessary to internalise the negative externalities, such as impacts on the environment and health.

3. The Social benefits of ending fossil fuel subsidies

- In the short run, providing lowest-income households, energy poor or people at risk of energy poverty with **support to cope with high energy costs** arising from the dependence on fossil fuels, for instance in the form of direct income support may be needed. These measures would help shield households from unbearable price increases (through means-testing or other similar measures) and guarantee the respect of their fundamental rights (i. e. to adequate housing, decent standard of living, health, etc). Such support measures must be temporary, designed with the intention to facilitate the gradual participation of the lowest-income-households in the just energy transition, and accompanied by measures which oblige and support energy efficiency improvements and uptake of renewables. Would that not be the case, there is a high risk to lock people less resourced in fossil fuel even longer.

- **Identify who may be adversely affected** by the removal of fossil fuel subsidies, how this adverse impact could potentially be mitigated, what are the social benefits and how they could interplay (social, distributional and employment impact ex-ante assessments).

- **Implement policies methodically** so that households can anticipate to minimise potential negative impacts of the termination of fossil fuel consumption subsidies, and maximise the benefits stemming from energy savings and renewables. This means ensuring that forward-looking investments and support measures are in place, especially for low income people, *before* the new policy comes into effect, incentivising transition to technologies which run on sustainable renewable sources, as well as energy savings.

- Among the **mitigation flanking measures** going with the removal of subsidies for the use of fossil fuels in heating, Member States need to consider:

    - Implementing energy efficiency measures as a priority, especially among people affected by energy poverty, low-income households, and people at risk of energy poverty.

- Establishing and achieving a minimum share of the required amount of cumulative end-use energy savings within the energy savings obligation, in particular among people affected by energy poverty, low-income households, vulnerable customers and, where applicable, people living in social housing.
- Large-scale deep energy efficiency retrofit programmes encompassing works on envelope, deployment of renewable-heating solutions and on-site renewable energy production (e.g. solar energy).
- Large-scale, long-term subsidy programmes including grants and interest-free loans (for households with low-ability to pay) and part-subsidies and interest-free or low-interest loans (for able-to-pay households), along with pre-financing mechanisms (revolving funds, guarantee loans, etc.), in order to support the switch to electrified and renewable heating and cooling solutions in the most inclusive way possible.
- Regulation requiring public and private sector landlords to do retrofitting of heating, cooling and ventilation systems and switch to renewable energy sources heating and cooling options available in their area prior to the removal of fossil fuel subsidies for heating and cooling.
- Progressive social-ecological taxes to decarbonize investments and generate additional resources to protect and promote social rights.
- Repurpose the money which otherwise benefits larger, polluting and more destructive fishing fleets, to support a just transition to low carbon and low impact fishing with better socio-economic conditions for all fishers, e.g. supporting the decarbonisation of the sector, transition towards less destructive fishing, local marketing schemes, adopting more sustainable gear, and rebuilding fish populations.

4. Fossil fuel subsidies, jobs and just transition

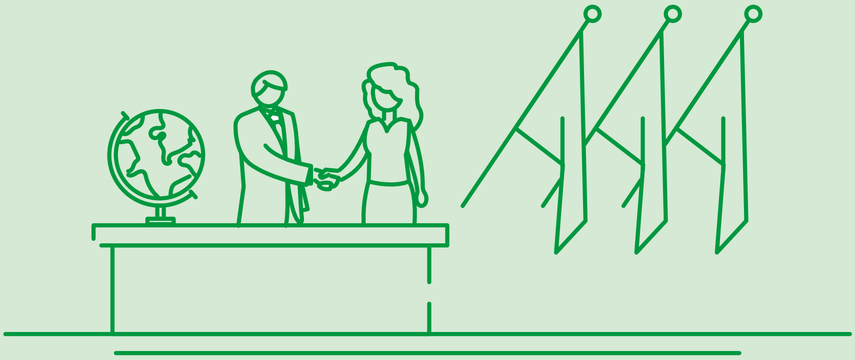
- The elimination of fossil fuel subsidies needs to be **part of a broader just transition approach, sector by sector.** Member States therefore need to carry a granular assessment of the social and distributional impacts of the elimination of fossil fuel subsidies, and they must adopt the right accompanying policies to fairly spread the cost of this societal and economic transformation towards a carbon-free economic model. This needs to be done in consultation and with the effective involvement of social partners. Local and regional authorities, civil society organisations and other stakeholders also need to be consulted about this societal transformation.

- Member States must ensure sufficient, timely and equitable access to **upskilling and reskilling.** Member States should make sure enough training schemes are made available, and public support is in place to make this impactful (adequate infrastructures for adult education, entry rules for workers, etc.). This may require employees in contracting sectors (such as coal, oil and certain automotive industry value chain manufacturing) to be made eligible for paid training leave. Upskilling and reskilling programmes should be made available free of charge to all who cannot afford to pay for it (i. e. means tested, whether or not they are unionised), or through salaried in-work training. Ideally, free childcare should be available for parents to ensure they can attend, and in some instances, subsidised transport may also be needed to ensure truly equitable access to all.

- Very often the wages in polluting sectors are higher than the average market ones. If transition to a new job causes wage decrease for workers, state schemes should be provided to **ensure the working conditions do not deteriorate** (income support facilitating labour market transitions).

- **Collective bargaining** in sectors and companies is indispensable to organise the transition to new jobs/skilling/etc. Participatory methods are key to design phase out measures. The specific role of trade unions and social dialogue in the labour sector must be better promoted and protected, and their progressive erosion — which goes with rising wealth inequality — reversed.

5. International action



At international level the EU and European governments have a key role to play in driving action in international institutions, through the Global Gateway Strategy, climate and development finance and export credits, and through trade policy.

In international institutions (including G7, G20, OECD, UNFCCC) and in their roles at international finance institutions the EU and European governments should:

- Work with partners in these fora to **develop clear national roadmaps** to phase out all fossil fuel subsidies by 2025 at the latest, with clear annual milestones and measures to ensure that it is the polluters who pay for it. It includes tax concessions, direct budgetary support, export credits and funds through bilateral and domestic Development Finance Institutions as well as direct and indirect (via financial intermediaries or via technical advice) finance through Multilateral Development Banks (MDBs). The EU and its Member States should reflect their commitment to the Glasgow Statement in their voting patterns in MDBs. An equitable approach must be used, which takes into account specific needs and conditions of developing countries, and tackles negative impacts on development, people living in poverty, affected communities and workers, with a gender lens.
- **Implement with integrity (i.e. no loopholes) the COP 26 Glasgow Statement** on ending international public finance for fossil fuels and prioritizing public finance for clean energy within one year of signing. This means introducing exclusion policies covering all abated and unabated fossil fuel activities and with no back-sliding. EU governments and institutions which have not yet signed up, including EU Member States, the EBRD and the European Commission should become signatories to the Statement, and fulfil the commitment within a year after signing it.
- **Support the adoption of oil and gas export finance restrictions** at the OECD, following on from the coal-fired power sector understanding adopted in 2015 that

restricted international export finance to coal.

- Support the adoption of **Climate Damages Taxes** at international and/or national-level on upstream extraction of fossil fuels, to provide funding for the loss and damage fund, whose establishment was agreed at COP27, as well as for resilience/adaptation and a just transition.
- At the UNFCCC, the EU should build on its proposals to **use fossil fuel taxation in negotiations on innovative sources for loss and damage funding arrangements.** It should also promote collective ambitious commitments at the UNFCCC regarding fossil fuel finance phaseout by making use of Sharm El-Sheikh dialogues on Article 2, paragraph 1(c) of the Paris Agreement and its complementarity with Article 9 on international climate finance.
- The EU should **facilitate litigation** to hold accountable governments, business and financial institutions for the human rights effects that their ongoing investments in, and subsidies for, fossil fuels and carbon intensive industries provoke.

Through the Global Gateway Strategy and action on export credits, the EU and Member States should:

- **Close loopholes allowing fossil fuel finance in external action instruments**, except support for clean cooking solutions to tackle health and poverty impacts in limited circumstances. A strong 'do-no-harm' list of investments should be set out for all instruments under the Global Gateway and around guarantee and blending operations of the European Fund for Sustainable Development Plus (EFSD+). This list could be modelled on Annex V of the InvestEU regulation, duly completed to exclude all fossil fuel activities as well as other damaging projects such as mega-hydro and nuclear.
- **Provide technical assistance** to support the development of fossil fuel subsidies definitions, phase out plans, and regulatory frameworks on taxation reform and the polluter pays principle, aligning with development objectives, just transition principles, gender equality and poverty and inequality reduction goals.
- **Scale-up adequate new and additional climate financing**, investment, capacity-building, and technology transfer to support energy access from, and just and inclusive energy transition towards, renewable energy sources in developing countries.
- EU contributions to new Just Energy Transition Partnerships via Global Europe or bilateral flows must be geared towards **providing an attractive alternative to fossil fuel investments**, with no place for fossil-based 'transition' fuels.
- **Phase out insurance and guarantees for fossil fuel investments from European export credit agencies** by the end of 2023 as the vague deadlines in the latest Council Conclusions on the topic miss the mark. We need a firm deadline in line with the COP26 Statement already signed by 12 EU Member States; Replace the current Regulation 1233/2011 with EU legislation based on the commitments adopted at COP26 that prevent further public financial support for fossil fuels. Such legislation must be fully informed by just transition principles and human rights and environmental due diligence standards.

- **Bring all EU Member States export credit policies in line with the COP26 Statement** before considering an EU export credit facility, as is proposed in the Global Gateway Strategy. First and foremost, Member State export credit agencies' policies should be brought in line with the EU climate goals before additional instruments should be considered.

Through their trade policy the EU and European countries should:

- **Use existing WTO rules to increase transparency** of fossil fuel subsidies.
- Take a leading role in **negotiating new WTO rules** to phase-out fossil fuel subsidies.
- The EU should support **eliminating all fuel subsidies for the fishing industry** at the WTO and Member States should ratify the partial agreement reached on the elimination of fisheries harmful subsidies.
- **Use bilateral agreements with industrialised or newly industrialised countries** to commit trade partners to phasing out fossil fuel subsidies. A differentiated approach should be taken in relation to developing countries and LDCs.

6. Fossil-free politics

The EU and Member States should:

- **End fossil fuel industry excessive weight** on EU and Member States' decision-making processes. This includes ending meetings between government and EU officials and the fossil fuel industry (including state-owned fossil fuel companies), except when it is strictly necessary to enable lawmakers, regulatory bodies and public authorities to effectively regulate the industry, and accelerate the transition to a fossil free Europe. Where such interactions occur, they must be conducted transparently. Fossil fuel corporations and their representatives should be excluded from public institutions' expert and advisory bodies, as well as public research bodies. Restrictions should be introduced on moving from the public sector to the fossil fuel industry and vice-versa.

- **Reject partnerships** with the fossil fuel industry. This includes governments not accepting any sponsorship, partnership, gift or donation from fossil fuel companies or their representatives. Political parties and politicians shouldn't accept funding or donations in kind from the fossil fuel industry.

- The EU should champion similar commitments at **international level**.

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