

Conference on the Future of Europe

Phasing out fossil fuel subsidies

8 September 2021

Deyana Spasova

Nils Meyer-Ohlendorf

Key messages

- 1 In the **EU, fossil fuels are heavily subsidized**. In 2018, for example, fossil fuel subsidies in the EU amounted to €50 billion— twice as much as investments in new wind and solar power generation capacities.
- 2 **Fossil fuel subsidies undermine climate policies**, as it is their very purpose to make the production and consumption of fossil fuels cheaper.
- 3 Regardless of its climate commitments, **the EU has continuously failed to phase out fossil fuels**. Ending fossil fuels has been one of the most protracted and deadlocked issues of EU climate and energy policies. The Conference on the Future of Europe could give new momentum to this deadlocked debate.
- 4 The Conference should call for a **legally binding deadline** for the end of fossil fuel subsidies, and a **truly green recovery** that clearly excludes any funding for fossil fuel infrastructure. To facilitate more efficient EU rule-making on energy taxation, the Conference should recommend expanding majority voting to this policy field.

Fossil fuel subsidies in the EU

In 2018, fossil fuel subsidies in the EU amounted to €50 billion.¹ This is more than double of the investments in the EU for new wind and solar power generation (€16 billion and €8 billion, respectively).² Between 2015 and 2018, subsidies for oil and petroleum grew by 18%.³ In 2018, more than 60% of fossil fuel subsidies in the EU were measures supporting energy demand.⁴ Subsidies exist in various forms: direct cash transfers, credits or tax exemptions.⁵

Worryingly, economic recovery efforts have not been used for significant changes in fossil fuel subsidies. Between January 2020 and March 2021, G7 nations spent more than US\$189 billion to support coal, oil and gas, while spending US\$147 billion to support clean energy, despite numerous promises of a green recovery.⁶ Initial estimations by the European Commission also suggest that the COVID-19 pandemic might have led to additional fossil fuel subsidies in the EU.⁷

Why is it important for the EU to phase out fossil fuels?

As their very purpose, **fossil fuel subsidies make the production and consumption of fossil fuels cheaper.**

This increases CO₂ emissions, and jeopardizes the achievement of the EU's climate goals. Abolishing fossil fuel subsidies could reduce global CO₂ emissions by 28%.⁸ The IMF estimates that ending fossil fuel subsidies could cut premature air pollution-related deaths by as much as 60%.⁹

Fossil fuel subsidies also make investments in renewable energies harder.¹⁰ They distort fair competition between fossil fuels and renewable energy sources. They encourage wasteful energy consumption, and reduce the impact of carbon pricing.

As the EU is implementing its obligation to become climate neutral by 2050, fossil fuel subsidies can channel investments into the infrastructure of the past. This can result in stranded assets.

Fossil fuel subsidies are often intended to support poor households, but generally the richest households benefit more, as they consume proportionally more energy.¹¹

As a matter of international credibility, the EU must be consistent in its climate and energy policy. Fossil fuel subsidies undermine this credibility.

What can the Conference on the Future of Europe do?

The EU has not been able to phase out fossil fuel subsidies. Numerous attempts to end fossil fuel subsidies have failed – largely for political reasons. In fact, ending fossil fuels has been one of the most protracted and deadlocked issues of EU climate and energy policies.

The issue needs new momentum. With its unique composition and legitimacy, the Conference on the Future of Europe (CoFoE) could provide this momentum. The CoFoE could break the deadlock.

To this end, the CoFoE is invited to consider the following recommendations:

Call attention to the issue of fossil fuel subsidies

Citizen panels could play a key role in calling attention to the issue. The CoFoE should discuss examples from everyday life that help people understand what is at stake and what the problems are.

Effective subsidy reforms require well-timed and clear communication, citizen participation and dialogue, as well as a specific indication of the protection and compensations that society will receive to mitigate the effects of abolishing subsidies. The CoFoE,

and in particular its panels, could be the perfect opportunity to communicate these matters in a transparent and inclusive manner.

Call for a legally binding end date

During the negotiations of the European Climate Law in 2020 and 2021, the European Parliament advocated legally binding obligations for Member States and the EU to phase out fossil fuel subsidies by 2025. Due to the objections of the Commission and Member States, this proposal did not become law. In light of broad support from various parties for the initial position of the European Parliament, the CoFoE could revitalize the proposal to end fossil fuel subsidies by 2025. The European Green Deal proposed that fossil fuel subsidies should end.

Call for a truly green recovery

EU funds to support the recovery after the COVID-19 pandemic may not cause significant harm to the environment. This principle is part of EU law. However, some of the EU recovery measures still allow for fossil gas power and heat generation infrastructure to be funded. The CoFoE could draw attention to this inconsistency.

Call for majority voting on EU taxation rules

The EU has been unsuccessful in ending fossil fuel subsidies partly because in many cases this would require unanimity in the Council of Ministers. In other words, each Member State has a veto and can block the ban of fossil fuel subsidies.

Expanding majority voting to taxation rules relevant for fossil fuel subsidies could be achieved by a unanimous Council decision (passerelle clause, Article 192.2 TFEU). The process on the CoFoE could help pave the way towards such a decision.

Bibliography

¹ COM (2020): 2020 report on the State of the Energy Union pursuant to Regulation (EU) 2018/1999 on Governance of the Energy Union and Climate Action. COM(2020) 950 final, Annex 2, p. 5. It should be noted that the total amount of fossil fuel subsidies depends on the definition of the term “fossil fuel subsidies”. As definitions vary, so do amounts. Total amounts of fossil fuel subsidies increase drastically if the term includes uncovered environmental damages, or the so-called negative externalities.

² Ibid, p. 6.

³ Ibid, p. 7.

⁴ Ibid, p. 6.

⁵ Nowag, Julian; Mundaca, Luis; Ahman, Max (2020): *Fossil Fuel Subsidies in the EU: EU State Aid Rules as Control and Phase Out Tools -Opportunities and Estimates*. Lund University.

⁶ Dufour, Lucile; Moerenhout, Tom; Picciariello, Angela; Beedell, Estan (2021): *Cleaning up their act? G7 fossil fuel investments in a time of green recovery*. Tearfund, IISD, ODI, p. 6.

⁷ COM (2020): 2020 report on the State of the Energy Union pursuant to Regulation (EU) 2018/1999 on Governance of the Energy Union and Climate Action. COM(2020) 950 final, Annex 2, p. 2.

⁸ Conceição, Pedro (2020): *Human Development Report 2020*. United Nations Development Programme, p. 159.

⁹ Coady, David; Parry, Ian; Sears, Louis; Shang, Baoping (2015): *How Large Are Global Energy Subsidies?* IMF, p. 26.

¹⁰ Davis, Lucas W. (2014): *The Economic Cost of Global Fuel Subsidies*. *American Economic Review*, 104 (5): 581-85.

¹¹ Koplow, Doug (2014): *Global Energy Subsidies: Scale, Opportunity Costs, and Barriers to Reform*. In *Energy Poverty: Global Challenges and Local Solutions*, (Oxford: Oxford University Press).

IMPRINT

Contact

Dr. Nils Meyer-Ohlendorf
Head, International and European
Governance

Ecologic Institute
Pfalzburger Straße 43/44
10717 Berlin

E-Mail:

nils.meyer-ohlendorf@ecologic.eu

Date

8 September 2021

Funding

The European Climate Initiative (EUKI) funded this report. All contributing organizations are appreciative of this support. Opinions expressed in this report represent the views of the authors and do not necessarily represent the position of the European Climate Initiative.

Supported by:



based on a decision of the German Bundestag