4TH UK

G7 FOSSIL FUEL SUBSIDY SCORECARD

Despite the United Kingdom's (UK) commitments to phase out fossil fuel subsidies and tackle climate change under the Paris Agreement, the government – like all G7 governments – continues to provide billions in support to oil, gas and coal, both domestically and internationally, through fiscal support and public financing mechanisms.

Overview

The UK is performing relatively poorly in comparison to other G7 countries in the phase-out of its fossil fuel subsidies. It has, however, performed relatively well in two areas: subsidy phase-out commitments and pledges, and the phase-out of support for coal mining.

Although the UK's commitments may change over time due to its prospective withdrawal from the European Union (EU), it has agreed as part of the EU to phase out environmentally harmful subsidies by 2020, and to end subsidies to hard coal mining by 2018. Despite these pledges, the UK government has yet to undertake a G20 subsidy peer review. This should be a high priority for the country if it is to demonstrate transparency and accountability in meeting its international commitments.

However, the domestic implementation of fossil fuel phase-out commitments has been slow. In particular, the UK government has agreed new measures to support the domestic oil and gas sector, including long-term support for the decommissioning of rigs and the transfer of tax histories in the North Sea.

Scoring G7 progress in ending government support for fossil fuels

	UK	FRANCE	GERMANY	CANADA	ITALY	JAPAN	US
Overall score and ranking	4th 47/100	1st 63/100	2nd 62/100	3rd 54/100	5th 46/100	6th 44/100	7th 42/100
1. Transparency	7th 10/100	3rd 50/100	1st 90/100	6th 25/100	3rd 50/100	5th 30/100	2nd 70/100
2. Pledges and commitments	1st 83/100	1st 83/100	1st 83/100	4th 75/100	5th 58/100	6th 50/100	7th 25/100
3. Ending support for fossil fuel exploration	4th 38/100	1st 63/100	1st 63/100	3rd 42/100	4th 38/100	7th 29/100	4th 38/100
4. Ending support for coal mining	5th 55/100	1st 75/100	4th 60/100	1st 75/100	1st 75/100	6th 45/100	7th 20/100
5. Ending support for oil and gas production	3rd 42/100	1st 54/100	1st 54/100	7th 25/100	3rd 42/100	5th 38/100	6th 33/100
6. Ending support for fossil fuel-based power	3rd 50/100	2nd 64/100	6th 39/100	1st 71/100	7th 29/100	4th 46/100	5th 43/100
7. Ending support for fossil fuel use	5th 50/100	4th 54/100	6th 46/100	2nd 67/100	7th 33/100	1st 71/100	2nd 67/100

Source: see G7 fossil fuel subsidy scorecard and Methodology note for references.

This country scorecard is one in a seven-part series. The country findings are collated in the summary report, which you can find at **odi.org/g7-scorecard** along with full references and further information about the methodology and data source used. This country scorecard was written by Leah Worrall, and peer reviewed by Dave Jones (Sandbag), Stuart McWilliam (Global Witness) and Mika Minio-Paluello (Platform London).

The authors gratefully acknowledge the financial support of the KR Foundation that made this report possible.

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Indicators

1. Transparency 10/100

- The UK has extremely poor transparency, as it does not provide national reports on its fiscal support for fossil fuel production and consumption.
- The UK has not yet participated in a fossil fuel subsidy peer review process as part of the G20 countries' longstanding commitment to phase out subsidies, nor has it so far committed to do so.
- Of the UK's three public finance institutions – the Department for International Development, UK Export Finance (UKEF) and CDC Group – only the CDC provides data on fossil fuel projects that is comprehensive and specific.

The UK does not publish specific reports on fiscal support for fossil fuels, and has not participated in a peer review process under the G20. In addition, despite high-level commitments, the government denies that it provides any fossil fuel subsidies (under the government's own definition).

2. Pledges and commitments 83/100

- Beyond its G7 and G20 commitments, the UK has made two EU-specific pledges to end fossil fuel subsidies: to phase out environmentally harmful subsidies by 2020; and, under the EU Decision to phase out hard coal mining subsidies by 2018.
- The UK has issued a joint statement with the United States (US) and Nordic countries restricting coal financing overseas. However, this does not apply to support provided through UKEF.

3. Ending support for fossil fuel exploration 38/100

- Under the 2016 Maximising Economic Recovery Strategy, the UK government is incentivising oil and gas exploration in the North Sea.
- Fiscal support for oil and gas exploration was provided domestically in the form of seismic survey programme budget expenditures and tax exemptions (2015 and 2016). In 2017, the UK government also provided new tax breaks for North Sea oil and gas exploration.
- In addition to fiscal support at home, UKEF provided international guarantees for oil and natural gas exploration in Brazil and the United Arab Emirates (2015 and 2016). In 2017, UKEF also pledged export financing to Colombia for deep water oil exploration.

4. Ending support for coal mining 55/100

- Although under the Organisation for Economic Cooperation and Development inventory, UK support for domestic coal mining was equivalent to zero for the period analysed (2015 and 2016), it continues to show two active measures – the mineral extraction allowance and support for abandonment costs – which were not quantified.
- In 2016, UKEF provided a guarantee for the underwriting of coal mining equipment in Russia.

5. Ending support for oil and gas production 42/100

- Fiscal support was provided to oil and gas production domestically through tax reductions and exemptions, including through extraction allowances and investment allowances (2015 and 2016).
- Overall, increasing tax breaks for oil and gas production has been a trend in recent years, and in the 2017 Autumn Budget, the UK government confirmed additional tax breaks and decommissioning support for oil and gas companies in the North Sea.
- Under the 2016 Maximising Economic Recovery Strategy, a new fiscal support measure of transferable tax histories will be introduced in 2019, allowing North Sea oil and gas companies to transfer tax payable to purchasers of oil and gas, as well as to claim tax relief for future decommissioning costs.
- The UK also continues to provide public finance to oil and gas production overseas. This includes CDC and UKEF support for natural gas and oil extraction, refining and transport in Brazil, China, India, Saudi Arabia, Jordan, Singapore, United Arab Emirates and Viet Nam (2015 and 2016).
- In 2017, it was estimated that 14% of UKEF's credit exposure was to the oil and gas sector. In 2016–17, UKEF also provided loans to Ghana in the development of its offshore oil and gas resources, and in 2018 had planned support for an oil refinery project in Oman to support exports into the UK.

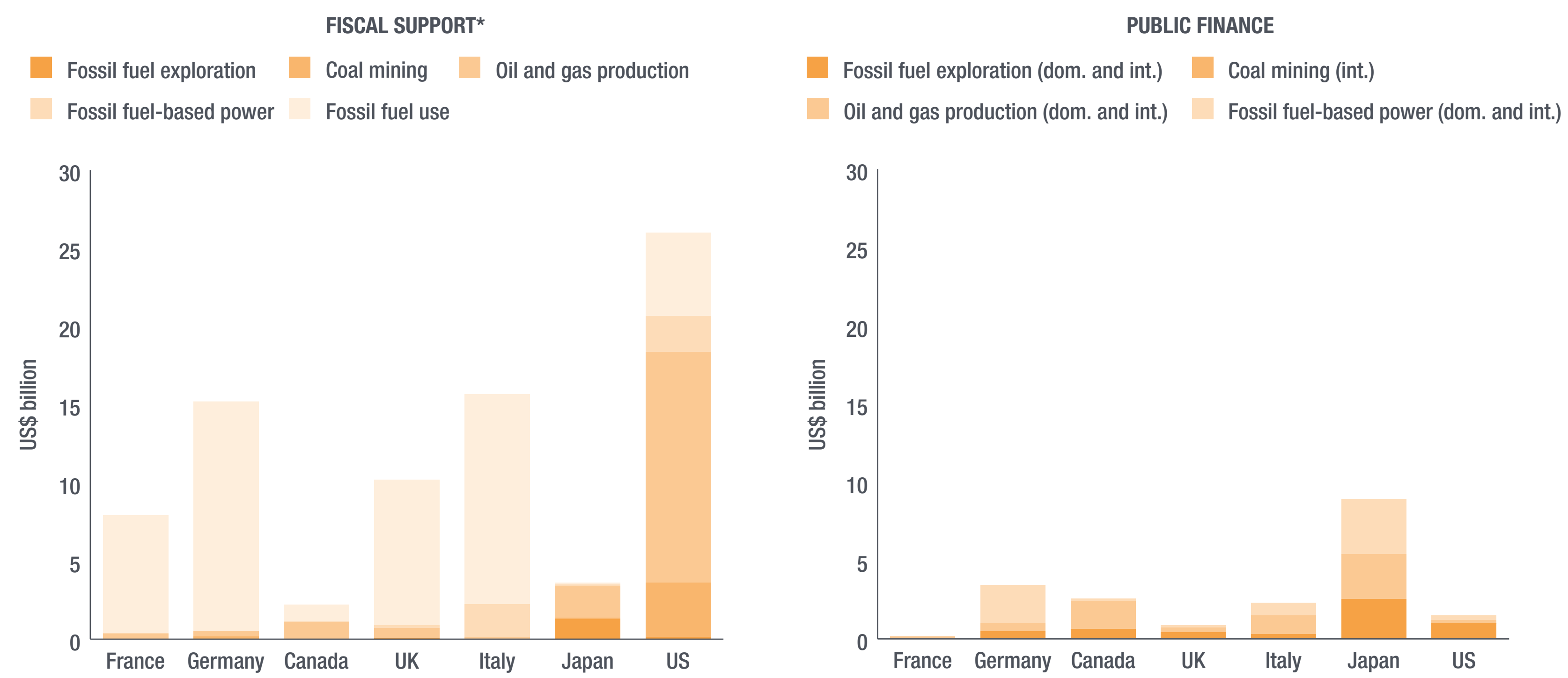
6. Ending support for fossil fuel-based power 50/100

- The UK government provided fiscal support for fossil fuel-fired power, through exemptions on the carbon price floor tax and climate change levy for supplies to combined heat and power stations (2015 and 2016).
- Non-fiscal support is also provided through the capacity mechanism and it is estimated that two-thirds of payments in 2018–2035 will be to fossil fuel power.
- UKEF and CDC Group provided international public finance support for oil and gas-fired power in eight countries in 2015 and 2016: Bangladesh, Ghana, India, Nigeria, Sierra Leone, Turkey, Ukraine and the United Arab Emirates.
- In 2017 and 2018, UKEF also agreed support for the development of new and maintenance of existing fossil fuel-fired power plants in Iraq.

7. Ending support for fossil fuel use 50/100

- Fiscal support is provided to industry, transport, households and other sectors (2015 and 2016). Two major types of support are the reduced value-added tax (VAT) rates on household fuel and power consumption and reduced taxation on transport fuel for use in engines, motors and heating (e.g. aviation).

Figure 1 G7 fiscal support and public finance for fossil fuels (annual average 2015 and 2016)



**All domestic. Note: scoring under indicators 3–7 was based on totals in Figure 1 divided by gross domestic product (GDP), so that countries were compared based on totals per unit of GDP.*
Source: author's own

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