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

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

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

- 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

- 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

- 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).