INCLUSION OF FOSSIL FUEL SUBSIDY PHASE OUT MONITORING INTO THE EU'S ENERGY UNION GOVERNANCE FRAMEWORK

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EU governments' ongoing financial support for fossil fuels hamper the Energy Union's decarbonisation objectives. As agreed on various occasions, all EU Member States should phase out fossil fuel subsidies, and do this by 2020. Unfortunately several Member States seem to be on a pathway to miss this commitment. The Energy Union governance framework should ensure those Member States phase out their fossil fuel subsidies the soonest possible.

Fossil fuel subsidies distort markets, give wrong price signals and dis-incentivise investments in renewable energy and energy efficiency, thus hampering the zero-carbon transition. They impose large fiscal costs on governments and drain scarce financial resources away from other key sectors.

In addition, these subsidies negatively impact local environments and water sources and cause illness and premature deaths due to local air pollution and heightened congestion.

Despite the overwhelming evidence against fossil fuel subsidies, governments in Europe, and the EU itself, continue[1] to pump approximately EUR 112 billion per year into polluting fuels such as coal, oil, gas and diesel.

Without cutting off financial support for one of the causes of climate change – fossil fuels – it will be extremely difficult to effectively overcome the climate crisis. Unfortunately, the financial support to the fossil fuel industry continues to flow. This trend stands in the way of increasing support for climate action across Europe.

The European Commission has acknowledged the need to phase out fossil fuel subsides[2] in its 2nd State of the Energy Union report (page 11): "[…} technologies and resources which are being phased out or

[1] http://www.caneurope.org/publications/blogs/1471-report-phase-out-2020-monitoring-europe-s-fossil-fuel-subsidies

[2] The commitment to phase-out of fossil fuel subsidies is reflected in various EU policy strategies and processes such as the Europe 2020 Strategy, the 7th Environment Action Programme, the '2050 Resource Efficiency Roadmap', or the European Semester process. The G20 have repeatedly committed to phase out fossil fuel subsidies, the G7 set a date to phase out inefficient fossil fuel subsidies by 2025. The Paris Agreement explicitly sets the overarching objective of aligning financial flows towards the long-term objective of the climate accord, including the phase out of fossil fuels (Article 2.1 (c)).

might not be sustainable in the long term should not be supported through public money. The Clean Energy package made it clear that the European Union is stepping up its efforts towards phasing out fossil fuel subsidies. Future reports on the State of the Energy Union will monitor developments on this commitment made under the G7 and G20."

In order to facilitate and support member states' effort to phase out fossil fuel subsidies, the European Commission proposes to include the fossil fuel phase out-process into the EU's Energy Union governance framework: "This [Clean Energy for all Europeans] package is also **stepping up EU's action in removing inefficient fossil fuel subsidies** in line with international commitments under G7 and G20 and in the Paris Agreement. The remaining but still significant public support for oil, coal and other carbon-intensive fuels continues to distort the energy market, creates economic inefficiency and inhibits investment in the clean energy transition and innovation. The market design reform is removing priority dispatch for coal, gas and peat and will limit the need for capacity mechanisms which often relied on coal. **The Commission will also establish regular monitoring of fossil fuel subsidies in the EU and expects Member States to use their energy and climate plans to monitor the phase-out of fossil fuel subsidies**. The Commission will carry out a REFIT evaluation of the EU framework for energy taxation in order to define possible next steps also in the context of the efforts to remove fossil fuel subsidies." (page 12, COM "Clean Energy for All")

The European Commission thus expects Member States to report on their progress in phasing out fossil fuel subsidies out via their National Energy and Climate Plans, without, however, anchoring this requirement in the relevant legislation on the Energy Union governance. The governance regulation though needs to include national commitments and plans and a unified monitoring on fossil fuel subsidies phase out.

Amendments by the European Parliament address this issue by proposing:

Amendment 156
Article 22 – paragraph 1 – point d
(d) national objectives to phase out energy subsidies, **in particular for fossil fuels**

Amendment 193
Article 29 – paragraph 2 – point j c (new)
(jc) Member States' progress towards phasing out direct and indirect fossil fuel subsidies by 2020;

Amendment 248
Annex I – part 1 – section A – paragraph 3 – point 3.1 – point 3.1.3 – point iv a (new)
iva. National policies, timelines and measures planned to phase out indirect and indirect fossil fuel subsidies by 2020

The EU, in its Resource Efficiency Roadmap committed to phase out fossil fuel subsidies by 2020. While EU Member States should first and foremost make every effort to fulfil this commitment, the Governance Regulation should further help to ensure a phase out date by ensuring all member States have to phase out all fossil fuel subsidies by the deadline that has been agreed by all major economies in the G7, which is 2025.

In the same regard, adding into the NECP template (Annex 1) 'National policies, timelines and measures planned to phase out indirect and indirect fossil fuel subsidies' will provide an incentive for member states to undertake the task. It will also be of great help for the Commission to ensure all countries are doing their fair share in moving towards the overall EU commitment of ending fossil fuel subsides, avoid market distortions and ensure correct price signals.