A framework for the phase-out of fossil fuel subsidies in the European Union

Input paper for the European Commission

January 2026

Marco Della Maggiore, *Stop Fossil Subsidies (United for Climate Justice)*
Olivier Vardakoulias, *CAN Europe*
Stéphanie Nieuwbourg, *ClientEarth*

STOP FOSSIL SUBSIDIES

Executive summary

The European Union stands at a decisive juncture in aligning its fiscal and energy systems with climate neutrality. Despite repeated international and EU-level commitments, fossil fuel subsidies persist, undermining the Union's environmental objectives, fiscal coherence, and energy independence. This report outlines the rationale, legal foundations, and policy design for a Union-wide framework to phase out fossil fuel subsidies, as tasked by President von der Leyen to Commissioners Hoekstra and Jørgensen in 2024.

The international context provides a clear normative foundation. Since the 2009 G20 Pittsburgh Summit and reaffirmed at COP28 in 2023, states have pledged to eliminate inefficient fossil fuel subsidies. The recent Advisory Opinion of the International Court of Justice in July 2025 adds legal weight to these commitments, confirming that continued support for fossil fuels may constitute a breach of states' obligations to prevent climate harm. Within the EU, this imperative is echoed in the 8th Environmental Action Programme, which mandates a binding framework for monitoring, reporting, and phasing out fossil fuel subsidies consistent with the 1.5°C target.

However, **the Union's progress remains fragmented.** The European Environmental Agency's latest data show that nearly half of fossil fuel subsidies in the EU, amounting to over 50 billion EUR, have no planned end date. Member States' reporting through National Energy and Climate Plans (NECPs) is inconsistent and incomplete, with no binding phase-out commitments or harmonised definitions. The Commission's repeated recommendations under the European Semester and Governance Regulation have yielded limited compliance. The slow revision of the Energy Taxation Directive has further delayed the removal of preferential treatment for fossil fuels.

A framework capable of closing these structural gaps must take the form of an integrated package of legislation:

1. **Amendments to the Energy and Climate Governance Regulation and its Implementing Regulation** would anchor binding provisions on a harmonised definition of fossil fuel subsidies, mandatory transparent reporting, national and Union phase-out deadlines, and a robust monitoring and enforcement mechanism;

2. **Amendments to the Energy Taxation Directive** would curtail preferential tax treatment for fossil fuels in line with the Commission's proposal;

3. **A revision of the State aid framework** would restrict fossil-related aid through systematic verification of compliance with environmental law and the "Do No Significant Harm" principle;

4. **Amendments to the Budget Expenditure Tracking and Performance Framework Regulation** for the next Multiannual Financial Framework would strengthen DNSH by establishing an exclusion list for fossil fuel-related activities.

The phase-out of fossil fuel subsidies will release fiscal space for clean energy investment, industrial decarbonisation, and just transition measures, while strengthening the competitiveness of the European economy by accelerating cost-effective clean technologies and reducing exposure to volatile fossil markets. It will reinforce the Union's international credibility and should be taken as an opportunity to bolster energy security. **The creation of a binding, harmonised EU framework would finally operationalise long-standing commitments, transforming fossil fuel subsidy reform from political rhetoric into enforceable policy.**

STOP FOSSIL SUBSIDIES

Chapter 1: Introduction

In September 2024, Commission President Ursula von der Leyen tasked Wopke Hoekstra, Commissioner for Climate, Net Zero and Clean Growth, and Dan Jørgensen, Commissioner for Energy and Housing, with developing a framework to further scale down and phase out the use of fossil fuel subsidies. Teresa Ribera, nominated as Executive Vice-President for a Clean, Just and Competitive Transition, will oversee this process as part of the new Commission's broader mandate to align the Union's fiscal, energy, and climate policies with its long-term climate objectives.

This initiative reflects mounting international and legal pressure to align public finance with climate neutrality objectives.

International context

The phase-out of fossil fuel subsidies is not a new commitment. The European Union and its Member States have repeatedly pledged to end these subsidies under multiple international fora. Yet implementation has lagged behind ambition, and subsidies continue to undermine climate targets and fiscal coherence.

Key international commitments include:

- G20 Pittsburgh Summit (2009): Leaders committed to "rationalize and phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption."
- UNFCCC COP28 (Dubai, 2023): Parties agreed to "transition away from fossil fuels" and to "phase out inefficient fossil fuel subsidies that do not address energy poverty or just transitions, as soon as possible."
- G7 Climate, Energy and Environment Ministers' Meeting (April 2024): Under Italy's presidency, G7 countries reaffirmed that "fossil fuel subsidies are inconsistent with the goals of the Paris Agreement" and renewed their commitment to "the elimination of inefficient fossil fuel subsidies by 2025 or sooner."

These international commitments provide the political and normative foundation for an EU-level framework to eliminate fossil fuel subsidies, consistent with Article 2.1(c) of the Paris Agreement and the Union's obligation to align all financial flows with the transition toward climate neutrality.

Advisory opinion of the International Court of Justice

On 23 July 2025 the International Court of Justice (ICJ) issued a unanimous Advisory Opinion clarifying that states have binding obligations under international law to address climate change. State actions and omissions, including the provision of fossil fuel subsidies, may constitute internationally wrongful acts when they lead to significant harm or increase the risk of harm. States are required to take "appropriate, substantial, rapid and sustainable" measures, including mitigation, adaptation, cooperation and preventive regulation. Legal consequences for breaches include cessation of wrongful conduct, guarantees of non-repetition, restitution, compensation and other reparations, depending on circumstances. Any country providing fossil fuel subsidies faces heightened international legal risk: any country can now bring a case against a fossil-subsidising nation in front of the ICJ.

European Union context

In the EU, the amount of fossil fuel subsidies continues to be significant, despite a pledge contained in the 8th Environmental Action Programme to phase them out in line with the temperature goals of the Paris Agreement.

Priorities contained in the 8th Environmental Action Programme (2022)

As mentioned above, Article 3 of the 8th Environmental Action Programme (8EAP) adopted in 2022 contains the following provisions:

> "*The attainment of the priority objectives set out in Article 2* [objectives of the 8EAP] *shall require the following from the Commission, Member States, regional and local authorities and stakeholders, as appropriate: [...]*
>
> > *(h) strengthening environmentally positive incentives as well as phasing out environmentally harmful subsidies, in particular fossil fuel subsidies, at Union, national, regional and local level, without delay, inter alia, by:*
> >
> > > *(i) a binding Union framework to monitor and report on Member States' progress towards phasing out fossil fuel subsidies, based on an agreed methodology;*
> > >
> > > *(ii) setting a deadline for the phasing out of fossil fuel subsidies consistent with the ambition of limiting global warming to 1,5 °C; [...]*
> > >
> > > *(iii) a methodology that is set out by the Commission, in consultation with Member States, by 2023, to identify other environmentally harmful subsidies [...]"*

To summarise, the EU shall phase out fossil fuel subsidies by:

- Setting a binding Union framework to report on progress towards phasing out fossil fuel subsidies;
- Setting a deadline for the phasing out, aligned with the 1,5 °C goal.

Fossil fuel subsidy trends in the Union

The prospects for a full fossil fuel subsidy phase-out in the Union are uncertain. According to the 2023 monitoring report by the European Environmental Agency (EEA) *"it is unlikely but uncertain that the EU will make much progress towards phasing out fossil fuel subsidies by 2030."*

After a peak due to the energy crisis in 2022, fossil fuel subsidies are returning to pre-crisis levels. According to the 2024 Report on Energy Subsidies in the EU *"in 2023, 43% of fossil fuel subsidies (EUR 48 bn) had a planned end-date before 2025 and another 9% (EUR 10 bn) had an end-date in the medium term, e.g. between 2026 and 2030. For the remaining 48% of fossil fuel subsidies (EUR 53 bn), there is either no end-date yet or the end-date has been set after the year 2030* [see Figures 1 and 2].*"*

This shows that the current pace of progress in the phasing out of fossil fuel subsidies is not coherent with EU ambitions.

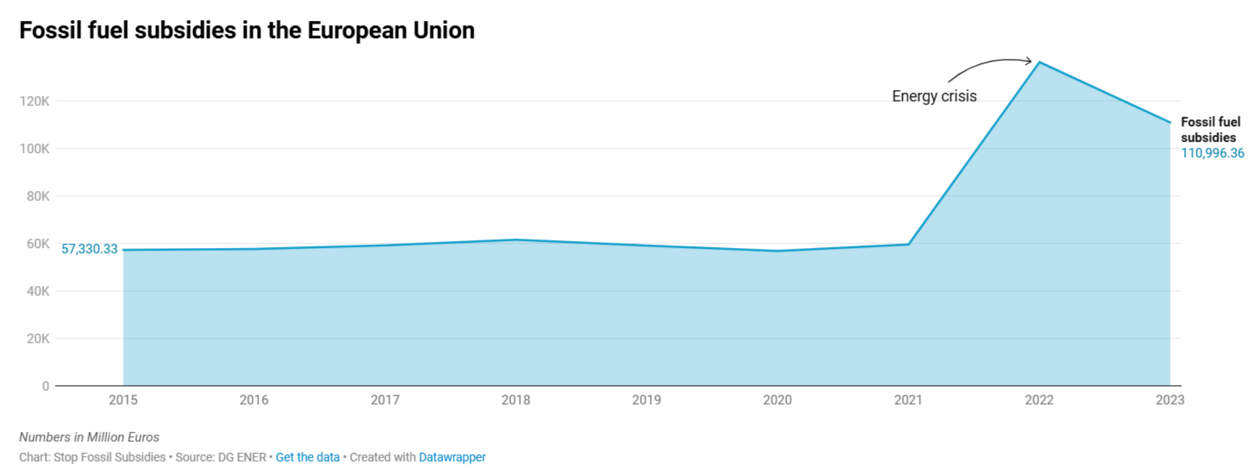

Figure 1: Fossil fuel subsidies in the European Union (Source)

STOP FOSSIL SUBSIDIES

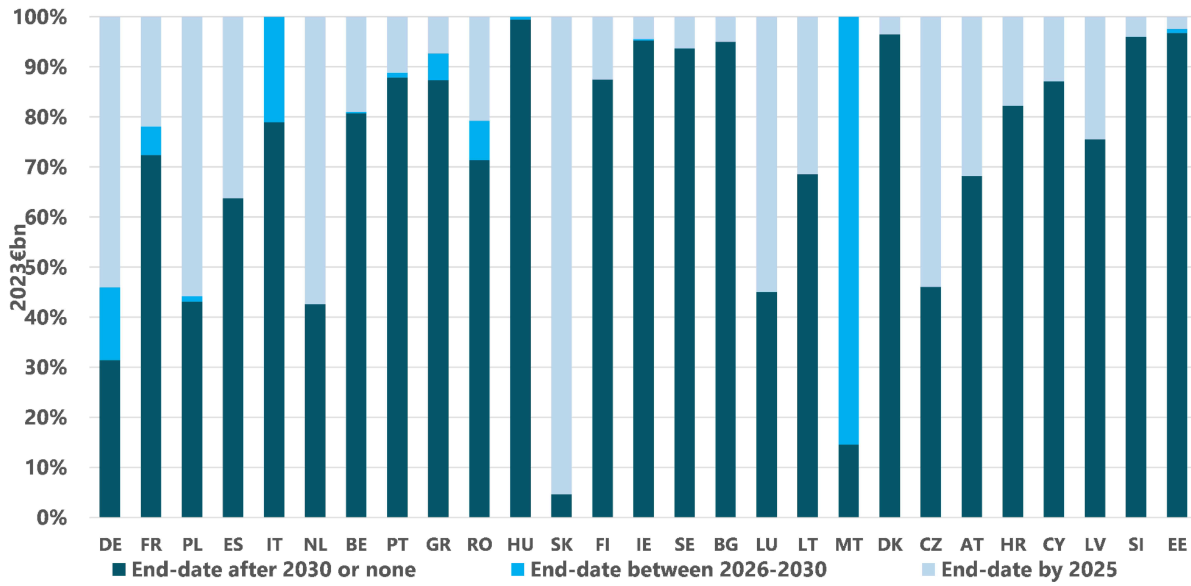

Figure 2: Fossil fuel subsidies by end-date, share of total FFS (%, 2023) (Source)

Data quality and collection challenges

The 2024 *Study on energy subsidies and other government interventions in the European Union* (on which the above-mentioned report is based) highlighted many challenges regarding subsidy data in Member States, pointing out gaps in accessibility and clarity, transparency, consistency, granularity, timeliness and punctuality, which prevent an accurate and comprehensive analysis of the status and trends of energy subsidies in the EU.

Moreover, there are significant discrepancies between the dataset of the *Study* (supposedly validated by Member States) and official Member States figures indicating an underlying issue with the methodological approaches across the Union. Sometimes methodological differences do not immediately explain the differing subsidy figures either, casting doubts on the validity and reliability of the figures of the *Study* for European and national policymaking.

ESABCC's recommendation (2024)

In 2024 the European Scientific Advisory Board on Climate Change released the report "Towards EU climate neutrality: progress, policy gaps and opportunities", in which it provided key recommendations to achieve Europe's climate neutrality. Key recommendation 4 is as following:

> "*The Advisory Board recommends urgently and fully phasing out fossil fuel subsidies in the EU, in line with existing commitments.*
>
> *Member States should fully and urgently phase out fossil fuel subsidies. In line with the 8th Environment Action Programme (8th EAP), they should set a deadline for phasing out such subsidies, and their updated NECPs should include a clear plan and timeline to*

achieve this."

To summarise, the Member States should:

- Set a deadline for phasing out fossil fuel subsidies;
- Update their NECPs to include a clear plan and timeline to achieve this.

EESC opinion on phasing out fossil fuel subsidies (2025)

The European Economic and Social Committee (EESC) issued an opinion as part of a broader package addressing the cost-of-living crisis, focusing here on the phase-out of fossil fuel subsidies. It calls for a comprehensive, socially balanced approach embedded in wider tax and policy reforms, adapted to national contexts and developed through inclusive social dialogue. Environmentally and socially harmful subsidies should be eliminated first, with untargeted support removed immediately and targeted schemes phased out more gradually while fostering decarbonisation.

The EESC urged the European Commission to provide clear guidance in the European Semester, setting specific milestones and interim deadlines in National Energy and Climate Plans. The EESC stressed the need to adopt the revised Energy Taxation Directive quickly, with ambitious minimum rates and limited exemptions, and to align State aid rules with decarbonisation by ending support for fossil projects.

Conclusions

The convergence of international legal developments, scientific recommendations, and political commitments has created both the normative and practical imperative for the European Union to phase out fossil fuel subsidies. However, progress to date remains inadequate and misaligned with the Union's climate ambitions. The task contained in the mission letters comes at a mature time for the reform of fossil fuel subsidies in Europe.

Chapter 2: European Union policy context

The European Union's current approach to phasing out fossil fuel subsidies is embedded in a complex policy and governance framework that links climate, energy, and fiscal legislation. The Governance Regulation (EU) 2018/1999 and the National Energy and Climate Plans (NECPs) form the central instruments through which Member States are expected to plan, report, and monitor progress towards the Union's energy and climate objectives. However, the Commission's recommendations on fossil fuel subsidies are at best only partially followed. Meanwhile, progress on the revision of the Energy Taxation Directive, started in 2021, has been slow. The newly added focus of the European Semester on fossil fuel subsidies has added a new instrument to the policy mix, but these recommendations are unlikely to fare better.

Governance regulation and National Energy and Climate Plans

Under Governance Regulation (EU) 2018/1999, Member States are required to submit National Energy and Climate Plans. Draft plans are reviewed by the Commission (see below); Member States are expected to update the plans on the basis of the review results. According to Article 25:

> *"Member States shall include in their integrated national energy and climate progress reports information on the implementation of the following objectives and measures:*
>
> *[...] d) national objectives to phase out energy subsidies, in particular for fossil fuels; [...]"*

It must be noted that the reporting by Member States under the Governance Regulation only encompasses fossil fuel subsidies for energy use (e.g. electricity generation and heating) and does not cover fossil fuel subsidies for other applications such as for transport, manufacturing feedstocks (processed into petrochemical to make plastics, chemical products and many other everyday materials) and producing fertilizers for agriculture.

Requirement for Member States to disclose fossil fuel subsidies in their NECPs

There is ambiguity over whether EU law explicitly requires Member States to publish complete inventories of fossil fuel subsidies (only for energy, not for other applications of fossil fuels). The confusion stems from the cross-referencing of obligations in the Governance Regulation (EU) 2018/1999 and its Implementing Regulation (EU) 2022/2299.

Under Annex VIII of the Implementing Regulation, Member States "shall report any objectives to phase-out fossil fuel subsidies and any objectives to phase-out other energy subsidies" and " [i]f no objectives are set to phase out energy subsidies, Member States shall report on any plans to make a phase out commitment or set a phase out objective." Annex XV requires inventories of subsidies *planned for phase-out*, specifying details such as the "end of implementation" date.

In theory, a Member State that has not decided to phase out any fossil subsidies could leave these sections blank. In practice, however, most Member States do disclose lists of fossil fuel subsidies, even without indicating phase-out timelines, apparently treating them as "ongoing" measures, per Commission reporting guidelines.[1]

Commission's EU-wide assessment of the draft updated NECPs (2023)

The Commission conducted an assessment of the draft updated NECPs in 2023. The [document] states that:

> *"Fossil fuel subsidies remain a major obstacle to the clean energy transition and a drag on the EU's ability to meet its climate objectives. As other environmentally harmful subsidies, they contradict the application of the polluter pays principle and distort market mechanisms. Based on the Commission analysis, a collective effort by all Member States is necessary to explain how they plan to phase out fossil fuel subsidies and to set a clear and credible timeline for their swift phase out, while adopting the ancillary measures needed to protect vulnerable households and safeguard competitiveness."*

Commission's EU-wide assessment of the final updated NECPs (2025)

The final assessment of the updated NECPs reveals the same policy gaps in fossil fuel subsidy reform, despite recommendations. The document states that:

> *"About half of the Member States have partially addressed the Commission recommendation on phasing out fossil fuel subsidies. The focus is mostly on the process and institutions, including activities in international fora, to further this objective by reviewing, identifying, and cataloguing financial, tax and other incentives. [...] Therefore, Member States have not taken full advantage of the NECP process to outline and prioritise the gradual phase-out of fossil fuel subsidies."*

The accompanying Staff Working Document provides an individual assessment for all Member States, including recommendations. A recurring recommendation is identifying fossil fuel subsidies and developing a roadmap for their phase out, since all Member States have either partially addressed or not addressed at all the recommendations received in 2023. It is also evident that Member States disagree on what counts as a fossil fuel subsidy.

---

[1] According to the guidelines to fill the Annex XV dataflow, *"[i]f there is no planned finish year/month, or the finish year/month then the subsidy is considered 'Ongoing'".*

Other policy initiatives

Revision of the Energy Taxation Directive

On 14 July 2021, the European Commission proposed a revision of the Energy Taxation Directive (ETD) as part of the Fit for 55 package, aiming to align energy taxation with climate objectives by removing exemptions that favour fossil fuels and incentivising cleaner technologies. The revision would tax fuels based on energy content and environmental performance rather than volume, with fossil fuels facing the highest rates and electricity the lowest. It also proposes ending long-standing tax exemptions for intra-EU aviation, maritime transport, and fishing.

In the Council, discussions have progressed slowly since 2021. In November 2025 the Council was not in the position to agree on a compromise proposal prepared by the Danish presidency.

State aid Policy

An overwhelming majority of fossil fuel subsidies in the EU come from national budgets. A part of those national subsidies fall under EU State aid control whenever the subsidies qualify as State aid. Any type of financial advantage (e.g. subsidies, grants, preferential loans, State guarantees) provided by national authorities to specific companies that distorts competition on the market qualifies as State aid. The Commission is in charge of enforcing the EU State aid rules.[2] .

The ESABCC notes that fossil fuel subsidies continue being channelled through State aid approved by the Commission, impeding the decline of fossil fuels and decarbonisation of industry, and recommends State aid policy to be made more consistent with the EU climate goals.

There is indeed a lack of horizontal safeguards against environmentally harmful State aid, including fossil fuels, across State aid policy. Instead, State aid policy takes a siloed approach. On the one hand, parts of the policy are aimed at supporting environmental objectives at large, such as the Guidelines on State aid for Climate, Environmental Protection and Energy (CEEAG) and the Clean Industrial Deal State Aid Framework (CISAF). These frameworks have been updated over the past years and contain restrictions (not a ban) on State aid for fossil fuels, however mainly for the most polluting fossil fuels which excludes gas. On the other hand, parts of State aid policy that are aimed at supporting other objectives (e.g. regional development, rescue and restructuring of companies in difficulty) do not contain any environmental conditions, thereby creating major loopholes for environmentally harmful aid measures.

[2] For more on State aid please consult ClientEarth's *State aid guide for CSOs*.

STOP FOSSIL SUBSIDIES

European Semester

As part of the European Semester, the Commission, for the first time in 2025, included a systematic quantification assessment of fossil fuel subsidies within the Semester Country Report and issued corresponding country recommendations related to fossil fuel subsidies. The countries that received recommendations urging to phase out "inefficient fossil fuel subsidies" are the following: Belgium, Bulgaria, Croatia, Greece, Hungary, Lithuania, Malta, Poland, Portugal, and Romania. However, the implementation of Country Specific Recommendations (CSRs) by Member States has historically been weak, as evidenced (among others) by the CSR database of the European Commission.

In May 2024, in line with Article 3 of the 8th EAP, an expert group to green the European Semester adopted a guidance document for reporting of non-energy environmentally harmful subsidies. This guidance creates a common basis to support Member States in identifying environmentally harmful subsidies not covered by the Governance Regulation (which ensures collection of energy subsidies, including those harmful to the environment) and reporting them to the Commission. The use of this guidance is voluntary for Member States due to the lack of a binding legal framework to report on non-energy environmentally harmful subsidies, as opposed to energy subsidies that are covered by the Governance regulation (see above). This means that reporting on fossil fuel subsidies for non-energy (e.g. transport, manufacturing feedstocks) uses remains optional and inconsistent in the EU.

2028-34 Multiannual Financial Framework (MFF) negotiations

Although the overwhelming majority of fossil fuel subsidies in the EU come from national budgets, phasing out the investment support for fossil fuel infrastructure in EU funds is crucial for at least two reasons: first, for the EU to lead by example by phasing out subsidies within its direct control; second, because EU funds provide the worst types of subsidies, namely investment support for new fossil fuel infrastructure (as opposed to subsidies for the generation and consumption through existing infrastructure) which risk locking the EU's energy model in fossil fuels for decades.

The 2021-27 long-term EU budget permanently excluded the provision of investment support for coal and oil related investments, but midstream and downstream gas infrastructure investments are still eligible via major EU funds, such as cohesion policy funds and the Recovery and Resilience Facility (RRF). This notably includes direct investment support for gas boilers, gas distribution infrastructure and (since RepowerEU) LNG-related infrastructure, as well as indirect investment subsidies e.g. via the financing of gas-based hydrogen and/or cogeneration.

According to the (horizontal) Performance Framework regulation proposed by the European Commission for the 2028-34 MFF (long-term EU budget), the entirety of EU budget instruments should abide by the "Do No Significant Harm" (DNSH) principle, meaning that no EU funds should harm climate and environmental objectives. This principle is expected to be operationalised through a European Commission guidance, outlining investment eligibility at a sectoral level. In theory, a genuinely robust implementation of DNSH should fully exclude investment eligibility of new fossil gas infrastructure, direct or indirect, as stressed among others by the European Parliament's resolution on the next EU budget.

Conclusions

Despite multiple legal and policy instruments addressing the issue, the Union still lacks an integrated, enforceable framework for the systematic phase-out of fossil fuel subsidies. The Governance Regulation provides a structure for reporting and transparency but no binding requirement for elimination. The Commission's repeated findings of partial compliance confirm that Member States interpret their obligations unevenly and that definitions of fossil fuel subsidies remain contested. While recent developments in the European Semester and the Energy Taxation Directive revision signal growing policy attention, progress remains slow and fragmented. State aid policy still allows fossil fuel support due to the lack of standardised environmental considerations. Last but not least, the European Union's own budget still allows the financing of new fossil fuel infrastructure investments through several of its existing instruments such as the Cohesion Fund, the European Regional Development Fund and the Recovery and Resilience Facility.

A Union-wide fossil fuel subsidy phase-out cannot rely on recommendations that are routinely not followed. A dedicated EU framework, anchored in clear definitions, binding timelines, and consistent reporting standards is necessary to drive actual progress.

Chapter 3: Way forward

The approach for the creation of *"a framework to further scale down and phase out the use of fossil fuel subsidies as part of our work to reduce Europe's dependencies",* as stated in the mission letters to commissioners Hoekstra and Jørgensen, should consider the challenges highlighted above.

The above analysis has revealed several gaps and obstacles that prevent a harmonised and rapid phase-out of fossil fuel subsidies in the Union:

- The amount of fossil fuel subsidies in Member States, while slowly decreasing from a 2022 peak, is not diminishing in line with the international commitments of the European Union;
- Member States are not taking advantage of the NECP process to communicate their phase-out plans (if any), with these being voluntary;
- Member States are not following Commission's recommendations on the matter;
- Member States have differing approaches to estimating fossil fuel subsidies, and are not always punctual nor precise in communicating their energy subsidy data to the Commission.

Legal basis

The strongest legislative bases in the EU Treaties on phasing out fossil fuel subsidies are the following.

Article 191(1) TFEU

It gives the legal basis for environmental measures to achieve the following objectives: preservation, protection and improvement of the environment; protecting human health; prudent use of natural resources; promoting measures to combat climate change. Article 192(1) establishes the ordinary legislative procedure for the achievement of these objectives.

Article 194(2) TFEU

It gives the Union competence to establish measures on energy policy objectives: ensuring functioning of the energy market, security of supply, promoting energy efficiency and renewable energy, and promoting interconnections.

Article 114 TFEU

In light of the distortions caused by the presence of fossil fuel subsidies in Member States and their phase-out, Article 114 could also be invoked to guarantee the harmonisation necessary to ensure proper functioning of the internal market.

Overall, there are some restrictions to note:

- Article 192(2)(a) TFEU: environmental measures "primarily of a fiscal nature" require unanimity in Council. Since subsidy phase-out often touches taxation, this is a potential constraint. However, if the legislative approach primarily concerns reporting, deadlines, and planning obligations rather than directly setting tax levels, it can rely on 192(1);
- Article 194(2), second sub-paragraph: "Such measures shall not affect a Member State's right to determine the conditions for exploiting its energy resources, its choice between different energy sources and the general structure of its energy supply." This is a limit on Union action, but the Court of Justice has interpreted it narrowly, as the provision must be interpreted in the context of the EU's international commitments.

Article 11 TFEU

Finally and more generally, Article 11 TFEU, also called the "integration principle", mandates that environmental protection principles be integrated across all EU policies and activities.

Recommended approach

Given that the mission letters mention *a framework* to further scale down and phase out the use of fossil fuel subsidies, the legislative approach must balance Union coordination with Member State implementation discretion, while addressing current policy gaps. Moreover, in accordance with the 8th Environmental Action Programme, the framework must be *binding*.

A framework could plausibly take the shape of an integrated package of legislation, as follows (see Figure 3):

1. Amendments to the Energy Taxation Directive to reduce preferential tax treatment of fossil fuels (as envisioned in the Commission proposal)[3];
2. Amendments to the Energy and Climate Governance Regulation (as already envisioned in the Commission Work Programme for 2026, Q4) and its Implementing Regulation, inserting binding provisions on:
    a. A harmonised EU-wide definition of fossil fuel subsidies;

[3] A significantly watered-down ETD revision, carving out exceptions to fossil fuel taxation in certain sectors, would severely limit the impact of a fossil fuel subsidy phase-out framework.

STOP FOSSIL SUBSIDIES

   b. Mandatory transparent and regular reporting by Member States;
   c. Phase-out deadlines;
   d. A robust monitoring and enforcement mechanism.

3. A revision of State aid framework to restrict fossil-related aid by adopting a threefold approach:
   a. All State aid should be subject to a systematic verification of compliance with EU environmental law and the "Do No Significant Harm" principle;
   b. Environmental conditionalities should be integrated in State aid policy and attached to individual State aid approval decisions where relevant;
   c. Environmental considerations should be taken into account when assessing the negative effects of an aid measure that supports fossil fuels on competition and trade, given the growing environmental risks that this entails in most economic sectors.
4. Amendments to the Budget Expenditure Tracking and Performance Framework Regulation proposal for the next MFF:
   a. The "Do No Significant Harm" guidance proposed should explicitly entail an exclusion list of harmful activities, including all fossil fuel related activities and direct or indirect investment support for fossil fuel-related investments;
   b. The proposed exemptions to DNSH implementation ("such as crisis situations…or other reasons of overriding public interest") should be scrapped from the proposed regulation, at least for what concerns fossil fuel investments.
5. Delegated acts as necessary to detail technical methodologies or indicators necessary to implement and monitor the framework;
6. Accompanying cover communication to set the political and policy context, outline the legislative package's rationale, and explain its intended contribution to EU climate goals, competitiveness, fiscal discipline, and energy security.

A framework for the phase-out of fossil fuel subsidies

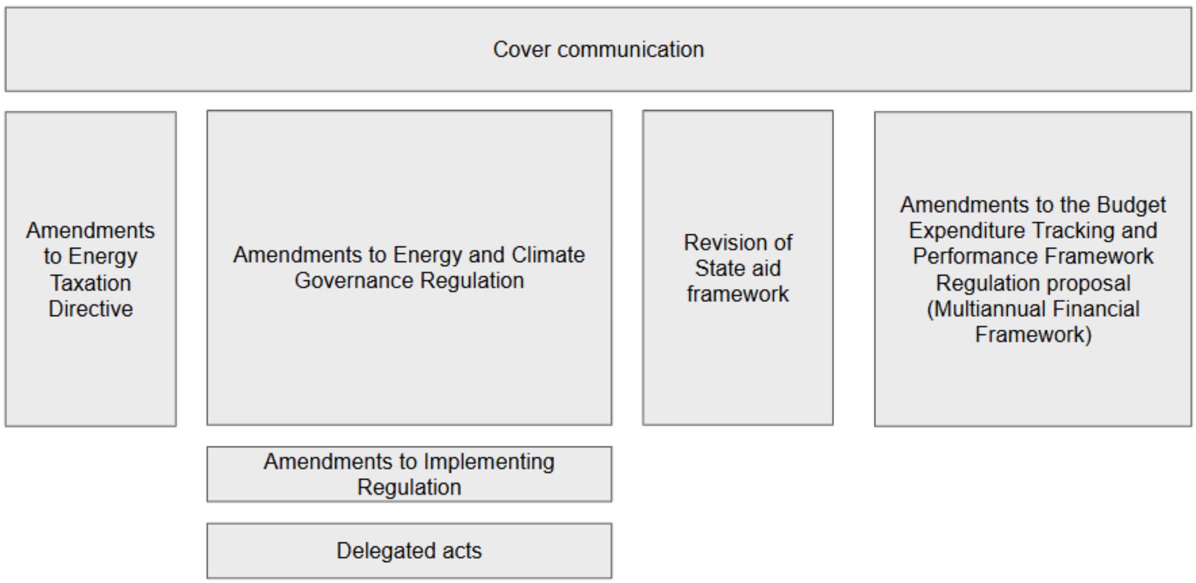

Figure 3: Overview of the recommended way forward for a framework for the phase-out of fossil fuel subsidies.

→ See **Annex I** for a list of elements that should be part of the amendment of Regulation (EU) 2018/1999.

→ See this brief (ClientEarth, *Environmental mainstreaming in EU State aid policy*) for a more detailed analysis of the current State of play in State aid policy, the legal boundaries and concrete recommendations for the revision of the State aid rules.

→ See this brief (WWF, *Briefing paper on the Performance Regulation*) for more detailed recommendations on the Budget Expenditure Tracking and Performance Framework Regulation.

→ See **Annex II** for a discussion on defining and estimating fossil fuel subsidies.

→ See **Annex III** for a list of resources on fossil fuel subsidy reform.

Cover communication

The cover communication would explain the framework in the context of the international commitments of the EU and the Union's climate priorities, and summarise the scope, objectives and timeline of the proposal. It is recommended that the document also positions the phase-out framework within:

1. The Draghi report on EU competitiveness: the fossil fuel subsidy phase-out is a structural reform that can be an enabler of Europe's next economic model, freeing capital, driving clean innovation, reducing dependencies, and embedding fiscal discipline within the net-zero transition;

2. The upcoming revision of the Energy Security Framework, and the Commission's goal to reduce the energy dependence of the Union, including through REPowerEU;

3. The Clean Industrial Deal and the Commission's goal of increasing Europe's sustainable competitiveness, including via the Recommendation on Tax Incentives to support the Clean Industrial Deal;

4. The Action Plan for Affordable Energy and the upcoming Heating and Cooling Strategy.

The communication should also:

1. Take into consideration the European Semester and the Union budgetary instruments under the Multiannual Financial Framework (and the related Budget Expenditure Tracking and Performance Framework Regulation), which should be consistent with the objective of phasing out fossil fuel subsidies;

2. Explain the need for a revision of State aid framework to fully integrate the "Do No Significant Harm" principle in it and close loopholes;

3. Stress the need for intense interservice coordination across DG CLIMA, DG ENER, DG TAXUD, DG COMP, and DG BUDG for the effective implementation of the framework;

4. Mandate the Energy Union Task Force to focus on the phase-out of fossil fuel subsidies as well, providing a platform for coordination and discussions of common challenges;

5. Consider the impact of the phase-out on the Net Effective Carbon Rates[4] across Member States and the interaction of the phase-out on carbon pricing (ETS1 and ETS2) in the Union, also in the context of the review of the ETS directive;

6. Underline the importance of consultations and communication activities to ensure fossil fuel subsidy reforms are understood and accepted by the public, also in the context of the upcoming Citizens Energy Package;

7. In line with the EU global climate and energy vision, delineate what actions the Commission will take on an international level to push for a swift phase-out of fossil fuel subsidies globally, in order to:[5]

[4] See Annex II.
[5] The Commission could set up a Task Force dedicated to the topic, following the example of the Task Force for International Carbon Pricing and Markets Diplomacy. Moreover, the observer membership of the European Commission to initiatives such as the Coalition On Phasing Out Fossil Fuel Incentives Including Subsidies (of which several EU Member States are part) may be instrumental to reach this goal. Finally,

a. Amend (or exit, if feasible) international treaties limiting or preventing fossil fuel subsidy reform at a global level;

b. "Make finance flows consistent with a pathway towards low greenhouse gas (GHG) emissions and climate-resilient development" (Article 2.1(c) of the Paris Agreement) and contribute to the New Collective Quantified Goal and Article 9.1 of the Paris Agreement;

c. Further safeguard the competitiveness of Europe's industry.[6]

Conclusions

The development of a European framework for the phase-out of fossil fuel subsidies must move beyond fragmented and voluntary national approaches. The persistence of subsidy levels incompatible with the Union's international climate obligations, the absence of binding national commitments, and the lack of methodological consistency across Member States demonstrate that the current policy landscape is insufficient.

The Union needs a binding, integrated framework to eliminate fossil fuel subsidies. This requires coordinated legislation across taxation, governance, State aid, and budget rules to close existing gaps and impose clear definitions, reporting duties, phase-out deadlines, and enforcement. The Energy Taxation Directive, the Governance Regulation, the State aid framework, and the MFF expenditure rules must be amended in tandem. Each instrument must restrict preferential treatment for fossil fuels, embed environmental conditionalities, and ensure full transparency and oversight.

Delegated acts and a cover communication complete the package. The communication situates the framework within the Union's economic, industrial, security, and fiscal priorities, and aligns it with international climate obligations.

The credibility of the EU's climate policy and the integrity of its internal market depend on eliminating fossil fuel subsidies that distort competition and undermine the energy transition.

input to the [First International Conference on the Just Transition Away from Fossil Fuels](#) in Santa Marta, Colombia, and subsequent meetings will help put a fossil fuel subsidy phase out on the global climate agenda.

[6] The reduction and elimination of fossil fuel subsidies will affect the competitiveness of European industries; the Carbon Border Adjustment Mechanism (CBAM), in full operation from 2026, can help address this. The CBAM instrument may need adjustments to ensure its full effectiveness in a fossil subsidy-free Union. The phase-out framework could also help the EU defend the CBAM internationally. Maintaining domestic fossil fuel subsidies while taxing embedded carbon in imports weakens the EU's argument on the need to protect the competitiveness of European industry against unfair, more polluting companies based in third countries.

Annex I: Recommended elements for the amendment of Regulation (EU) 2018/1999 and Implementing Regulation (EU) 2022/2299 (and its Annexes)

Preamble

Legal basis

- Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 191(1), 194(2), Article 11 [and others] thereof.

Scientific and policy rationale

- The positioning of the Regulation within the context of EU legislation targeting the energy sector to achieve the Union's 2030 climate and energy goals, including the revision of the Energy Taxation Directive and a future revision of State aid rules;
- Energy security is a core objective of Union policy: energy security is best served by accelerating the deployment of diverse, decarbonised energy sources and energy-saving measures rather than prolonging reliance on subsidised fossil fuels that increase exposure to volatile global markets and geopolitical supply risks;
- Fossil fuel subsidies contradict the "polluter pays" principle;
- Fossil fuel subsidies are incoherent with the EU's climate goals and long-term decarbonisation objectives;
- The recognition of the role of fossil fuel subsidies in maintaining the Union's energy dependency;
- The recognition of the role of fossil fuel subsidies in the lock-in of the fossil economy;
- The recognition of the role of fossil fuel subsidies in restricting the fiscal space of the Union and its Member States;
- A reference to the latest available science reviewed by the IPCC (2023), stating that removing fossil fuel subsidies would reduce emissions, improve public revenue and macroeconomic performance, and yield other sustainable development benefits;
- A reference to the recommendations of the European Scientific Advisory Board on Climate Change (2024) urging the full phase-out of fossil fuel subsidies in the EU to achieve 2030 and 2040 decarbonisation goals;
- Reference to the Advisory Opinion of the International Court of Justice (2025) *Obligations of States in respect of Climate Change*, clarifying that States have binding

obligations to address climate change and that providing fossil fuel subsidies may breach those obligations;
- A reference to Article 2.1(c) of the Paris Agreement, committing Parties to making finance flows consistent with a low-emission, climate-resilient pathway, and the New Collective Quantified Goal;
- The recognition of just transition principles for a fair and equitable energy transition across the Union;
- A reference to the 8th Environmental Action Programme commitment to phase out fossil fuel subsidies “at Union, national, regional and local level, without delay”;
- References to international commitments to phase out fossil fuel subsidies, including:
    - the COP28 commitment to phase out inefficient fossil fuel subsidies that do not address energy poverty or just transitions;
    - the G20 commitment (Pittsburgh 2009) to rationalise and phase out inefficient fossil fuel subsidies over the medium term;
    - the G7 commitment to phase out inefficient fossil fuel subsidies by 2025 or sooner;
- The recognition of the lack of international progress in phasing out fossil fuel subsidies despite repeated commitments;
- Acknowledgment of voluntary initiatives among Member States, including participation in the Coalition of Finance Ministers for Climate Action (COFFIS) and other international platforms committed to aligning fiscal policy with climate goals.

Carbon pricing and Effective Carbon Rates

- Fossil fuel subsidies constitute a form of negative carbon pricing, as they reduce or nullify the price signal generated by the Union’s carbon pricing instruments, thereby undermining the effectiveness of the EU Emissions Trading System and national energy taxation frameworks;
- Strengthening carbon pricing requires the removal of measures that counteract the price signal, including tax exemptions, rebates, or preferential treatment for fossil fuel production and consumption, which distort market behaviour and delay fuel switching;
- The Effective Carbon Rate, composed of ETS prices, energy taxes and the effect of subsidies, provides an integrated measure of the price signal faced by energy users, and subsidy reform is essential for raising Effective Carbon Rates without imposing additional taxation;
- Fossil fuel subsidy reform complements and reinforces the Union’s competitiveness agenda, by ensuring that clean technologies are not placed at a structural disadvantage and by supporting the functioning and integrity of complementary instruments, including the Carbon Border Adjustment Mechanism.

Economic and investment dimensions

- Sustained public support for fossil fuels depresses productivity growth, inhibits efficient capital allocation and weakens the competitiveness of the Union economy by delaying investment in clean technologies, modern infrastructure and energy-efficient production processes;
- The recognition of the link between fossil fuel subsidy reform and investment mobilisation: the phase-out will release fiscal resources for clean investments and innovation, in line with the Clean Industrial Deal and the Clean Energy Investment Strategy for Europe;
- The recognition of the complementarity between the Union's Carbon Border Adjustment Mechanism and the progressive phase-out of fossil fuel subsidies, ensuring fair competition between domestic and imported products, internalising environmental costs consistently, and potentially strengthening the Union's position under international trade law;
- An acknowledgment of the financing dimension of the transition: fossil fuel subsidy reform must be integrated into broader Union efforts to mobilise public and private capital for decarbonisation, including through the InvestEU Programme, Innovation Fund, Modernisation Fund, Just Transition Fund, and Cohesion Policy Funds;
- Member States are encouraged to adopt tax systems aligned with the clean transition, consistent with the revision of the Energy Taxation Directive and the objective of internalising environmental externalities.

Just transition

- The phase-out of fossil fuel subsidies must be carried out in a manner that maintains social cohesion and protects vulnerable households and SMEs, ensuring that the transition to a clean energy system does not exacerbate existing inequalities or create new forms of energy deprivation;
- A socially fair transition requires that Member States identify, assess and address the distributional and social impacts of subsidy phase-outs in advance, through ex-ante impact assessments, and develop compensatory or structural policies consistent with just transition principles;
- The redirection of fiscal resources released through fossil fuel subsidy reform towards social protection measures and access to clean, affordable energy is essential to ensure public acceptability and the durability of the phase-out process;

Monitoring

- A reference to the latest *Study on energy subsidies and other government interventions in the European Union* and the status of fossil fuel subsidies contained therein;
- A reference to the European Environmental Agency's *Fossil fuels subsidies* indicator in its monitoring report on progress towards the 8th EAP objectives;

- The recognition of the monitoring challenges stemming from the lack of a common definition of fossil fuel subsidies;
- Effective Carbon Rates, reflecting the sum of carbon taxes, energy taxes, and emissions trading prices, provide a comprehensive indicator of the extent to which carbon emissions are priced across sectors.

Internal coordination

- The recognition that the Commission should ensure effective coordination among its relevant services, including those responsible for climate action, energy, taxation, competition, and budget, to ensure coherence across Union policies on subsidy reform;
- The design and implementation of fossil fuel subsidy phase-out plans require a whole-of-government approach, ensuring coordinated action across national ministries and Commission DGs responsible for energy, finance, environment, industry, transport and social policy, so that fiscal, climate, industrial and social objectives are aligned and mutually reinforcing throughout the transition.

Other initiatives

- The Union's economic governance cycle, notably the European Semester, and the Union budgetary instruments established under the Multiannual Financial Framework, including rules and methodologies for budget tracking and performance assessment, should reflect and be consistent with the objective of phasing out fossil fuel subsidies.

Consultations

- Inclusive and deliberative processes, including citizens' assemblies, can strengthen the democratic legitimacy of fiscal transition policies and improve public acceptance of fossil fuel subsidy reform.

Subject matter

- The legislation establishes a Union-wide framework for the identification, reporting, and phase-out of fossil fuel subsidies, and monitoring thereof.

Definitions

- Adoption of a common definition of fossil fuel subsidies based on the WTO definition of subsidy;[7]
- Establishment of a presumption of inefficiency: all fossil fuel subsidies are considered inefficient unless explicitly justified under the listed exceptions.

---

[7] See Annex II.

Exceptions

- Exceptions may apply where subsidies:
  - Are demonstrably necessary to address energy poverty or ensure affordable access to energy during transition periods;
  - Or are not environmentally harmful (e.g. support decommissioning or closure of fossil fuel infrastructure, mine rehabilitation, or methane reduction) and do not slow the energy transition;

  And are time-bound.

- Exceptions must:
  - Be notified to and approved by the Commission;
  - Include social and environmental impact assessments;
  - Be reviewed periodically and subject to withdrawal if conditions are no longer met.
- For every exception Member States shall provide an action plan, reviewed by the Commission, to lay the foundations for a future phase-out of the subsidy.

Deadlines and timelines

- A Union deadline for the phase-out of fossil fuel subsidies across the Union, consistent with the ambition of limiting global warming to 1,5 °C;
- The requirement for Member States to set deadlines in their NECPs for the phase-out of fossil fuel subsidies,[8] within 18 months of the entry into force of this legislation.

Phasing out Union-level fossil fuel subsidies

- Requirement for the Commission to conduct a study for the identification of fossil fuel subsidies embedded in Union legislation and budgetary instruments;
- The study shall be followed by a roadmap for the phase-out of Union-level fossil fuel subsidies.

Reporting on progress

- Member States are required to update their NECP with a fossil fuel subsidy inventory (based on the common definition of fossil fuel subsidies) within 18 months of the entry into force of this legislation;
- The report on progress, including a biannual fossil fuel subsidy inventory, can be integrated with the current progress reporting as set down in the Climate and Governance regulation and its Implementing Regulation (Annex XV).

[8] Special attention should be given to sub-State fossil fuel subsidies, as mentioned in the 8th EAP.

Addressing energy poverty

- Mandatory inclusion in NECPs of mitigation (compensatory) measures addressing social and distributional effects of subsidy removal;[9]
- Establishment of EU financial support mechanisms (via the Social Climate Fund, Modernisation Fund, or cohesion instruments) to protect vulnerable households:
    - The release of related Union funds to Member States shall be dependent on the achievement of milestones by Member States;
- Obligation for Member States to conduct ex-ante distributional impact assessments before removing subsidies with significant social impact.

Consultations and communication

- Requirement for Member States and the Commission to conduct multi-stakeholder consultations with civil society, trade unions, local authorities, and affected sectors. This could take the form of citizens' assemblies;[10]
- Obligation for Member States and the Commission to undertake public information campaigns explaining the rationale, benefits, and compensatory measures associated with the phase-out;[11]
- Requirement for the Commission to maintain a publicly accessible database of fossil fuel subsidies in the EU and progress indicators.[12]

Standstill policy

- Provisions preventing the introduction of new fossil fuel subsidies during and post-phase-out;
- Any new subsidy fossil fuel subsidy must:
    - Be temporary, targeted, and clearly justified under exceptional circumstances (to be defined; e.g. price shocks);
    - Receive prior approval from the Commission;
    - Include a fixed expiry date and exit strategy.

---

[9] See here for more information: *ESRAF: Assessing the Readiness of Social Safety Nets to Mitigate the Impact of Reform – Good Practice Note 5*
[10] See here for more information on innovative public participation.
[11] See here for more information: *ESRAF: Designing Communication Campaigns for Energy Subsidy Reform - Good Practice Note 10*
[12] This could be integrated with the current European Environmental Agency's reporting on the 8th Environmental Action Programme.

Reinvestment of freed fiscal space

- Member States shall report[13] on how the fiscal resources freed through the phase-out of fossil fuel subsidies are redirected, including:
  - Lowering general fiscal pressure for low-income households and SMEs;
  - Measures addressing energy poverty and ensuring a just transition;
  - Investments in clean energy, energy efficiency, industrial decarbonisation, and sustainable infrastructure;
  - International climate finance.
- The Commission shall assess, as part of its annual evaluation under the European Semester, the extent to which Member States have redirected fiscal resources from fossil fuel subsidies toward climate and just transition-aligned investments.

Effective Carbon Rates[14]

- Requirement for Member States to estimate Effective Carbon Rates and communicate them in the NECPs, according to a common methodology developed by the Commission;
- Requirement for the Commission to publish, as part of the annual Report on Energy subsidies in the EU, an analysis of Member States' Effective Carbon Rates.

Compliance

- The Commission shall monitor compliance and may:
  - Issue recommendations or binding decisions requiring corrective measures;
  - Initiate infringement procedures for repeated failure to report or demonstrate progress.

[13] This information could be submitted via the National Reform Programme under the European Semester.
[14] See Annex II.

Annex II: Defining and estimating (fossil fuel) subsidies

WTO-based

The definition of energy subsidy used in the *Study on energy subsidies and other government interventions in the European Union*, and therefore in the Commission's annual reports on energy subsidies, follows the framework of the WTO Agreement on Subsidies and Countervailing Measures (ASCM). Under this approach, a subsidy exists where a government or public body provides a financial contribution that confers a benefit. This includes direct transfers (grants, tax rebates), foregone revenue (tax exemptions), provision of goods or services, or income and price support mechanisms.

There is, however, disagreement across Member States on how to approach any estimates of fossil fuel subsidies. Some Member States explicitly disagree with the methodology of the *Study.* For this reason, it would be necessary to kickstart a dialogue process with Member States to converge towards an approach that is agreeable to all.

IMF approach

The IMF uses a broader framework distinguishing between *explicit* and *implicit* fossil fuel subsidies. Explicit subsidies largely overlap with the WTO definition, such as direct support or price controls. Implicit subsidies are derived from the failure to price external costs of fossil fuel use, including climate and local pollution damages.

This methodology is conceptually different: it defines subsidies by comparing observed energy prices to a theoretical "efficient" price that would reflect full supply and environmental costs. However, this does not necessarily imply a fiscal transfer from government to beneficiary. The IMF's "subsidy" therefore measures a *price deficit* rather than a budgetary outlay.

While this approach provides valuable insights into the economic cost of underpricing carbon, it is less suited for legal or regulatory frameworks, as it does not rely on identifiable financial contributions or exemptions.

In its opinion, the European Economic and Social Committee (EESC) has called for a precise, IMF-based EU definition of fossil fuel subsidies to be included in the revised Energy and Climate Governance Regulation, together with harmonised reporting guidelines. However, operationalising this in a binding legal framework would be significantly more challenging than simply adopting a WTO-based definition.

The authors of the yearly *Study on energy subsidies and other government interventions in the European Union* may be mandated to devise an approach to estimate the external costs of fossil fuel subsidies.

Effective Carbon Rates

The concept of Effective Carbon Rates measures the combined price signal on carbon emissions from three instruments: carbon taxes, emission trading systems, and fuel excise taxes. It expresses the total carbon cost in euros per tonne of CO_2.

ECRs allow comparison of the overall fiscal treatment of fossil fuels across sectors and countries, providing a practical indicator of whether polluters face the true social cost of carbon.

The Net ECR is equal to the ECR minus the fossil fuel subsidies that decrease pre-tax fossil fuel prices.

Incorporating ECR assessment into the EU framework could complement the WTO-based subsidy definition by quantifying implicit subsidies, in a way that is more widely accepted than the IMF approach. Where effective carbon rates fall below the estimated social cost of carbon, the gap represents a form of implicit support for fossil fuel use.

STOP FOSSIL SUBSIDIES

Annex III: Resources on fossil fuel subsidy phase-out

Selected articles and reports

Assia Elgouacem (2020), Designing fossil fuel subsidy reforms in OECD and G20 countries: A robust sequential approach methodology

Christopher Beaton, et al. (2013), A guidebook for fossil fuel subsidy reform for policymakers in Southeast Asia

Jakob Skovgaard, et al. (2024), Revitalizing international fossil fuel subsidy phase-out commitments through roadmaps, closing loopholes, and support

Jonas Kuehl, et al. (2025), Making It Happen - How the G20 can end fossil fuel subsidies in practice

Jun Rentschler and Morgan Bazilian (2017), Policy Monitor—Principles for Designing Effective Fossil Fuel Subsidy Reforms

Jun Rentschler and Morgan Bazilian (2024), Reforming fossil fuel subsidies: drivers, barriers and the state of progress

Neil McCulloch (2023), Ending Fossil Fuel Subsidies: The politics of saving the planet

Nils Droste, et al. (2024), A political economy theory of fossil fuel subsidy reforms in OECD countries

Other resources

G20 Peer Reviews

ESMAP, Energy Sector Management Assistance Programme, Energy Subsidy Reform Facility

ESRAF, Energy Subsidy Reform Assessment Framework

International initiatives

Coalition on Phasing Out Fossil Fuel Incentives Including Subsidies	Fossil fuel subsidies	COFFIS is a forward-leaning coalition of countries working to remove fossil fuel subsidies collectively through coordinated efforts and concrete direct domestic action.

Friends of Fossil Subsidy Reform	Fossil fuel subsidies	Set up in June 2010, the "Friends" is an informal group of non- G20 countries aiming to build political consensus on the importance of fossil fuel subsidy reform.
Fossil Fuel Subsidy Reform initiative	Fossil fuel subsidies	The Fossil Fuel Subsidy Reform (FFSR) initiative seeks to achieve the rationalization, phasing-out or elimination of harmful fossil fuel subsidies through the use of existing mechanisms or the development of new pathways to reform, and encourages WTO members to share information and experiences to advance discussions at the WTO.
Powering Past Coal Alliance	Fossil fuels	The Powering Past Coal Alliance (PPCA) is a coalition of national and subnational governments, businesses and organisations working to advance the transition from unabated coal power generation to clean energy.
Beyond Oil and Gas Alliance	Fossil fuels	BOGA is an international alliance of governments and stakeholders working together to facilitate the managed phase-out of oil and gas production. The alliance aims to elevate the issue of oil and gas production phase-out in international climate dialogues, mobilize action and commitments, and create an international community of practice on this issue.
Fossil Fuel Non-Proliferation Treaty	Fossil fuels	The proposed treaty would complement the Paris Agreement by providing the global roadmap needed to halt the expansion of fossil fuel, manage an equitable phase-out of coal, oil and gas, and lay the foundations for a true just energy transition in which no worker, community or country is left behind.
Agreement on Climate Change, Trade and Sustainability	Sustainability, fossil fuel subsidies	The Agreement on Climate Change, Trade and Sustainability (ACCTS) is a path-finding international pact aimed at integrating environmental and trade policies. The agreement contains specific prohibitions of fossil fuel subsidies.

STOP FOSSIL SUBSIDIES

Stop Fossil Subsidies is a campaign by United for Climate Justice

For questions and feedback: info@stopfossilsubsidies.eu