BloombergNEF

Climate Policy Factbook

Three priority areas for climate action

July 20, 2021

Foreword

Michael R. Bloomberg

Since the start of the pandemic, the global community has endured an unprecedented challenge.

COVID-19 has touched every corner of the world. Some four million people have died – a number that is still rising – and many lost their jobs and livelihoods.

But now, as vaccination rates go up worldwide – and public health restrictions begin to ease – it's time to envision what our shared post-pandemic future looks like. And that process begins with charting an economic recovery that makes us all stronger.

Of course, each country's plans for rebuilding their economies will be different. But two things are clear:

One: We need to work together to build a resilient global economy capable of withstanding the next worldwide crisis.

And two: that crisis is already here. It's called climate change.

By integrating climate change into their economic recovery, countries have a chance to spur job growth – while also building stronger and more resilient economies for the future.

In recent years, we've made a lot of progress driving carbon emissions down. But the reality is, to respond with the urgency that is required, we all need to do more – and this is a critical year for the global fight against climate change.

To meet this moment, it's essential that governments not only make bold commitments, but also adopt policies that ensure they reach their goals.

This report highlights three areas where G20 members can take immediate and tangible steps toward achieving the goals put forward by the Paris Climate Agreement: Phasing out fossil fuels and transitioning to clean energy, putting a price on carbon emissions, and embracing mandatory climate risk disclosure.

To build a better future for our children and grandchildren, we must come together – in the public and private sectors – and take the necessary steps to build a resilient, sustainable global economy.

The G20 has the power to ensure that we do – and this report, if taken to heart, can help provide a roadmap for success.

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Key messages

2021 is set to be a crucial year for galvanizing government and corporate efforts to reduce greenhouse-gas emissions and tackle climate change. Support from developed to developing countries, and leadership from the former by taking swift action will be paramount. This report highlights three concrete areas where G20 governments can act today to make significant contributions toward achieving the Paris Agreement goals: phasing out support for fossil fuels, putting a price on carbon emissions and making companies disclose the risks they face due to climate change.

- The Group-of-20 countries provided $636 billion in direct support for fossil fuels in 2019 – only 10% below 2015. This type of policy distorts prices and risks increasing investment in emission-intensive assets with long lives. Even consumer-targeted subsidies tend to benefit wealthier citizens.
- Seven of the G-20 members (four in the OECD) boosted fossil-fuel support from 2015–19 or their total support on a per-capita basis is notably high relative to the rest of the group. Five countries allocated over $1 billion to coal in 2019.
- Some nations have made phase-out commitments but these are often ill-defined or include significant exceptions. Despite governments' increasingly ambitious climate commitments and the availability of cheaper clean technologies, 60% of fossil-fuel support in 2019 went to producers and utilities.
- A total of 12 G-20 countries have implemented at least one nationwide carbon-pricing policy. However, only half of the schemes could drive meaningful emission reduction by covering a big enough share of emissions with a high enough price. Even these policies are weakened by concessions such as generous free allocation of permits.
- Climate change brings increasing physical and transition risks for companies and investors. Some governments have begun to implement policies to ensure that the right data is available in order for these risks to be assessed accurately.
- However in the G-20, only the U.K. plans to enforce climate-risk reporting, while the three EU member states have made it mandatory in certain cases. Some countries such as Australia have in place generic environmental disclosure requirements, which could be adapted to climate risk.

G-20 progress on three priority areas

	Type of party to UNFCCC	Fossil-fuel support	Carbon pricing	Climate-risk disclosure
Argentina	Non-Annex I	Mixed	Mixed	Wrong direction
Australia	Annex I	Wrong direction	Mixed	Mixed
Brazil	Non-Annex I	Wrong direction	Wrong direction	Mixed
Canada	Annex I	Wrong direction	Right direction	Mixed
China	Non-Annex I	Mixed	Mixed	Mixed
France	Annex I	Wrong direction	Right direction	Right direction
Germany	Annex I	Right direction	Right direction	Right direction
India	Non-Annex I	Right direction	Wrong direction	Wrong direction
Indonesia	Non-Annex I	Wrong direction	Wrong direction	Wrong direction
Italy	Annex I	Right direction	Right direction	Right direction
Japan	Annex I	Mixed	Mixed	Mixed
Mexico	Non-Annex I	Wrong direction	Mixed	Mixed
Russia	Annex I	Wrong direction	Wrong direction	Wrong direction
Saudi Arabia	Non-Annex I	Mixed	Wrong direction	Wrong direction
South Africa	Non-Annex I	Right direction	Mixed	Mixed
South Korea	Non-Annex I	Right direction	Mixed	Wrong direction
Turkey	Annex I	Right direction	Wrong direction	Wrong direction
U.K.	Annex I	Mixed	Right direction	Right direction
U.S.	Annex I	Mixed	Mixed	Mixed

Right direction · Mixed · Wrong direction

Source: BloombergNEF. Note: Click here for our definitions of 'Right' and 'Wrong direction'

Introduction

Global average temperatures continue to rise, with 2020 tying with 2016 to be the warmest year on record, according to NASA's Goddard Institute for Space Studies. Covid-19-driven lockdown measures mean that emissions in 2020 were 2–12% lower than the preceding year. However, this temporary decline will likely have a limited effect in terms of mitigating the impact on climate systems as man-made emissions have been accumulating for centuries.

A growing number of governments have announced a target to reach net-zero emissions within the next 30–40 years. Indeed many of these commitments have been made during a global pandemic, signaling a growing awareness of the risks posed by climate change.

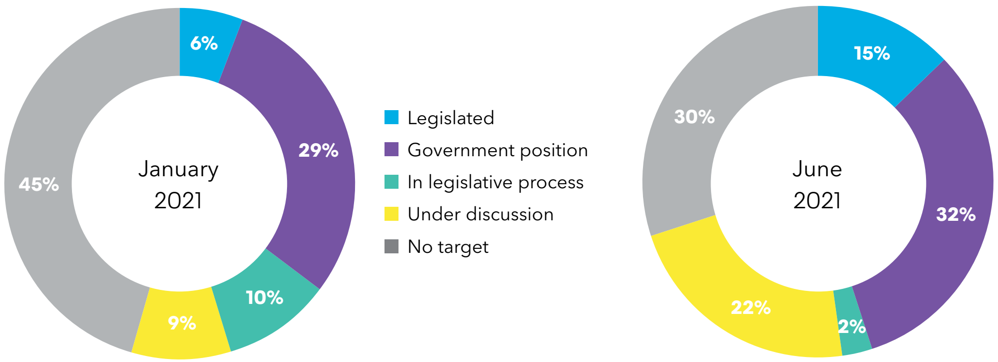
COP26 in November 2021 will kick off the first full pledging cycle, which was agreed in Paris in 2015, and will be the first official opportunity to discuss countries' climate plans known as 'Nationally Determined Contributions'. Parties must ratchet up the ambition of their pledges to avoid the worst effects of climate change. The NDCs submitted by end-2020 would put the world on course for global warming of more than 3 degrees Celsius this century, based on the UN Environment Programme's *2020 Emissions Gap Report*.

This report focuses on the following three priority areas for government action:

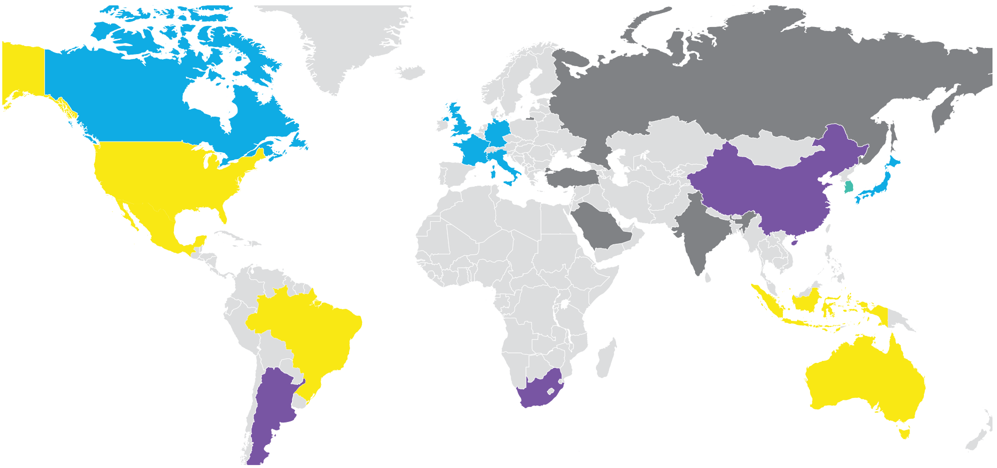
- **Phasing out existing fossil-fuel support:** Governments, state-owned enterprises and public financial institutions continue providing billions of dollars each year to support the production and consumption of fossil fuels.
- **Advancing carbon pricing:** More governments than ever are putting a price on emissions with the aim of deterring the use of carbon-intensive fuels and incentivizing cleaner technology. Absent a carbon price, polluters pay nothing for the long-lasting damage they cause to the environment.
- **Making climate-risk disclosure mandatory:** There are growing calls for companies to be obliged to report the climate risks they face. Making such disclosure mandatory should enable companies to prepare better for the physical effects of climate change and the implications of the shift to a low-carbon economy, and help investors to understand better and take account of those risks.

Status of net-zero emission targets

Share of global emissions



G-20 countries by status of net-zero emission target



Source: Governments, WRI CAIT, BloombergNEF. Note: Greenhouse-gas emissions including land use and forestry covered by an EU, national or state-level target.

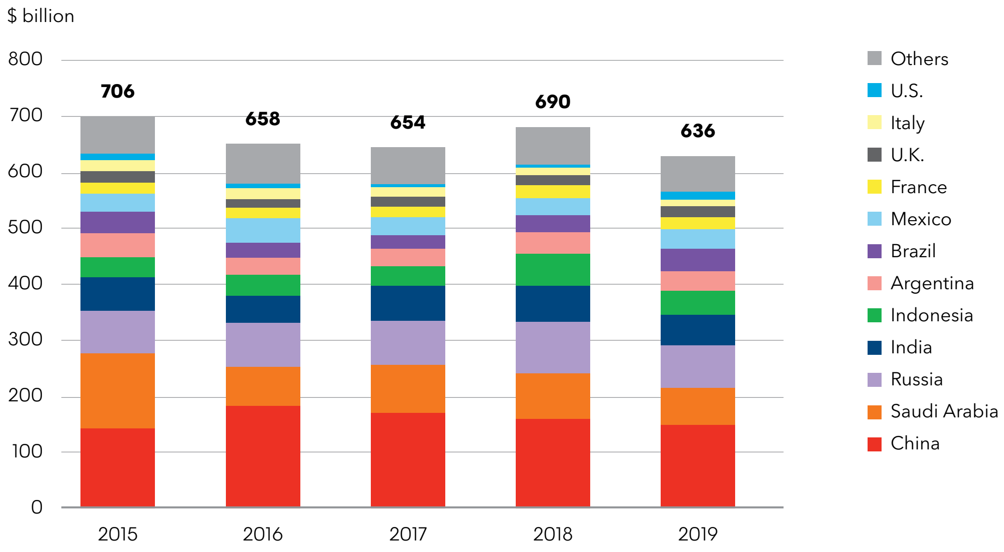
Fossil-fuel support

Overview

The governments of the 19 individual country members of the G-20 provide significant financial support for fossil-fuel production and consumption. Phasing out this support will be an important step in accelerating the climate transition and achieving the goals of the Paris treaty.

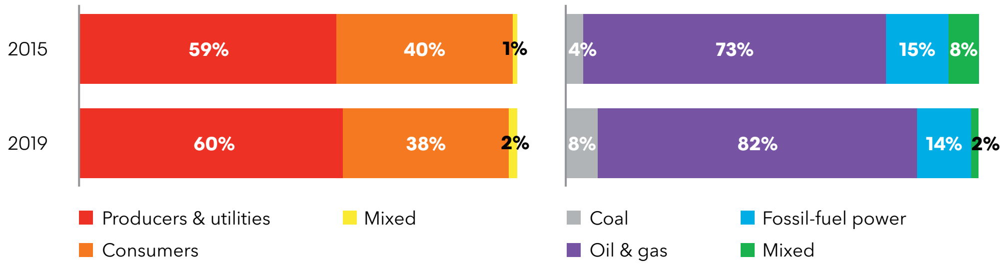
- G-20 governments provided $3.3 trillion of direct support for coal, oil and gas and fossil-fuelled power 2015–19. At today's prices, that sum could fund 4,232GW of new solar power plants – over 3.5 times the size of the U.S. grid. Further, given varying levels of transparency nations provide on such funds, these figures are probably an under-count.
- This support comes in various forms: nearly half of the G-20 total in 2019 comprised investment by state-owned enterprises. Such companies are often the sole operators in the energy sector and are thus more common in developing countries. Such nations also account for the lion's share of the subsidies on consumer energy prices (21% of the G-20 total in 2019).
- Instead, fossil-fuel support made by developed countries tends to be in the form of direct budgetary transfers (8% of the G-20 2019 total), tax breaks (14%) or concessional grants and loans from public finance institutions (12%).
- China provided nearly a quarter of the 2019 count. But with a per-capita total of $104, it was well below the G-20 average of $313. In contrast, Saudi Arabia ($1,962), Argentina ($734) and Russia ($523) came top. The G-20 as a whole has cut this funding 10% 2015–19. But this masks significant variation across countries, with eight members boosting support – notably Australia, Canada and the U.S.
- This support encourages the (potentially wasteful) use and production of fossil fuels. It can also distort prices and risks carbon 'lock-in'– whereby assets funded today will be around for decades, locking in high levels of future emissions. All of these factors hinder the climate transition.
- The lion's share (60% in 2019) goes to producers and utilities, despite government climate commitments and proliferation of cost-competitive clean technologies. Even consumer-targeted subsidies disproportionately benefit wealthier consumers.
- Much of the effort to phase out fossil-fuel support has focused on coal. Yet coal subsidies have risen in recent years, with sizable funding from China, South Africa, Japan and the U.S., among others.

Fossil-fuel support by G-20 countries



By target recipient

By fuel



Source: OECD, International Energy Agency, Oil Change International, Overseas Development Institute.
Note: Includes budget transfers, tax expenditure, public finance, investment by state-owned enterprises (SOE) and consumer-price support.