Addressing oil and gas production phase out is vital for governments attending the Climate Leaders Summit.
5 REASONS WHY ADDRESSING OIL AND GAS PRODUCTION IS VITAL TO TACKLING CLIMATE CHANGE

1. **(MIS)ALIGNMENT WITH PARIS CLIMATE GOALS.**
   According to the UNEP Production Gap Report, to be consistent with the Paris Agreement target to limit global warming within 1.5°C, oil and gas production needs to decline annually by about 4% and 3% respectively between 2020 and 2030. In contrast, countries’ planned and projected production of coal, oil, and gas is set to increase by an average of 2% annually, which by 2030 would result in more than double the production consistent with the 1.5°C limit.

2. **AVOID AN UNMANAGED, CHAOTIC DECLINE.**
   The longer governments leave the transition away from oil and gas production needed to ensure the world stays within the 1.5°C limit, the harder it will be to manage it, to limit shocks to the workforce, and avoid wasting capital on stranded assets. Last year, the impacts of the pandemic gave an insight into what an unmanaged and sudden decline in the oil and gas industry will look like, with huge job losses and insecurity, low-income producing countries facing massive budget crunches, large bailouts for the industry in rich producing countries, and the fossil fuel industry accumulating debt in order to be able to maintain dividends for shareholders.

   A well-planned phase-out of oil and gas production that also addresses the needs of workers and communities impacted by fossil fuel developments must start now to avoid both climate breakdown and the deferred economic collapse from a much more rapid transition that would be needed to meet climate targets if a transition is started later. This does not mean turning off the taps overnight. Rather, it means taking climate limits seriously and intentionally planning to wind-down fossil fuel extraction at the pace required to meet them in a manner that is economically sound and socially just.

3. **BASIC ECONOMICS: SUPPLY SIDE MEASURES ARE AN IMPORTANT ADDITION TO DEMAND SIDE ACTION.**
   Governments have been seeking to tackle climate change with policies that focus on reducing the demand for fossil fuels, e.g. phasing out Internal Combustion Engine vehicles. Yet measures to reduce demand, on their own, lower prices and therefore make highly polluting activities cheaper in other countries. Supply side measures on the other hand, increase prices and thereby make polluting activities more expensive in absolute and relative terms, thus discouraging consumption and further incentivising the transition, e.g. energy efficiency becomes more financially viable.

   Further, economists acknowledge that supply creates demand. Thus, by reducing the supply of oil and gas, through reducing plans for production, governments can reduce demand too. Given 75% of emissions come from fossil fuels, addressing a significant source of these emissions - oil and gas production - is essential.

4. **IT’S EASIER TO STOP NEW PROJECTS THAN CLOSE EXISTING ONES.**
   Once fossil infrastructure is built, it becomes harder to reduce carbon dioxide emissions: the existing project will have economic incentives to keep operating; sunk costs will give it competitive advantages over alternatives; and defenders will seek to build political and legal barriers against policies that threaten their project. This is why it is imperative to stop permitting new fossil fuel projects and infrastructure.

5. **INVESTOR CERTAINTY IS ESSENTIAL FOR ACHIEVING CLIMATE GOALS.**
   According to IRENA, to achieve 1.5°C, investments in the energy transition will have to increase by 30% over planned investment to a total of USD 131 trillion between now and 2050, corresponding to USD 4.4 trillion on average every year. By delaying an oil and gas phase out, governments are sucking investment from clean energy and at the same time creating stranded assets and wasting critical capital. In the 5 years since the Paris Agreement, the world’s 60 biggest banks have financed fossil fuels to the tune of $3.8 trillion.

   Committing to a managed decline with end dates for production will give investors much needed clarity and confidence and help shift global financial flows from fossil fuels to clean energy.
WHY UNITED STATES, CANADA, UNITED KINGDOM AND NORWAY SHOULD ACT NOW TO LIMIT PRODUCTION OF OIL AND GAS:

In Section A, we saw how government action on oil and gas production is critical. It’s vital that the US, Canada, the UK and Norway in particular take leadership positions, moving away from oil and gas quickly. There are two reasons for this:

THE SCALE OF THE THREAT THEY POSE

- The United States is responsible for having by far the largest expansion plans for oil and gas; according to Rystad Energy projections, the industry is on course to produce 2300 million barrels of oil per year (Mbbl/y) more in 2030 compared to 2019, and over 260 billion cubic meters more per year (bcm/y) in 2030 vs 2019
- Canada has the second largest gas expansion planned to 2030 - with 78 bcm more gas projected to be produced in 2030 vs 2019 (a 45% increase), and seventh largest oil expansion (350 Mbbl/y more in 2030) (17% increase).
- The UK currently intends to increase production of oil by 18% (targeting 75 Mbbl/y more in 2030 compared to 2019 production levels).
- Norway has the 10th largest projected oil expansion to 2030 (120 Mbbl/y more in 2030 compared to 2019).

EQUITY

Some countries are better positioned to transition than others. The price fluctuations from Covid have been difficult for low income producing countries like Iraq, Nigeria and Angola. Given the global need to phase down production, those less economically dependent on oil and gas, with greater financial capacity and historic responsibility for emissions should phase out first. For this reason, as the graph below shows, the US, Canada, UK and Norway are best placed to be climate leaders on this issue.
WHAT DOES CLIMATE LEADERSHIP ON OIL AND GAS LOOK LIKE?

1. Stop the licensing and permitting of new oil and gas fields and wells, and associated infrastructure.
2. Cap oil and gas production, and develop phase-out plans aligned with 1.5°C.
3. End subsidies and public finance propping up fossil fuel producers domestically and internationally.
4. Regulate financial institutions such as banks, asset managers and insurers to align finance of fossil fuel production with 1.5°C.
5. Ensure a just transition for workers and local communities currently entangled in the fossil fuel economy, as we discuss in the next section.
6. Mobilize the massive, sustained investments that are needed to build the scaffolding of a new, resilient, and regenerative economy, including support from wealthy countries to developing countries to diversify their economies and/or leapfrog fossil fuels.
7. Ensure that Covid-recovery packages help accelerate rather than slow down the energy transition. As governments across the world continue to invest hundreds of billions in the energy system to reboot their economies, they should avoid funding oil and gas projects and build back better by focusing on renewables and other alternatives.

CLIMATE LEADERS SO FAR

The list of countries and public financial actors putting precedent-setting limits on oil and gas extraction – as part of comprehensive climate action – is growing:


Other momentum: the Icelandic parliament is considering bans on new oil and gas licenses. Sweden is also assessing steps to end fossil fuels extraction. Active debates are happening in sub-national jurisdictions: the U.S. state of California is weighing steps towards a managed decline of oil, and a growing number of jurisdictions have banned specific types of fossil fuel development and/or infrastructure. Major insurers, banks, and pension funds, have also committed to not fund oil and gas.
In the **United States**, the new administration accepts oil and gas supply is a problem, but much more action is needed to stop expansion and enact a wind-down of extraction. President Biden has canceled the Keystone XL oil pipeline, and committed to ban new oil and gas leasing on federal lands and waters. In addition, the Biden administration has already committed to develop a plan for ending overseas public finance for fossil fuels and domestic fossil fuel subsidies, including removing tax breaks for oil and gas drillers. These are positive announcements, but given the enormous levels of production planned in the U.S., far more action is needed by the US administration on domestic oil and gas if it wants to regain credibility on the world stage. Moving swiftly to stop the Line 3 tar sands oil pipeline and shut down the Dakota Access oil pipeline, enact a ‘climate test’ blocking future fossil fuel infrastructure proposals, end domestic fossil fuel subsidies under executive control, follow the European Investment Bank’s and the UK’s leadership in ending public finance for fossil fuel projects through the Export-Import Bank of the United States (EXIM), U.S. International Development Finance Corporation (DFC), and the Multilateral Development Banks, and reinstate the crude oil export ban that was lifted under President Barack Obama are some key early tests of the Biden administration’s willingness to act boldly on climate.

While the Government of **Canada** has begun to strengthen its climate policies, it continues to ignore the climate consequences of increasing oil and gas production. By 2050, the country will produce more oil and gas than it did pre-Covid. While the federal government can’t outright ban oil and gas production, it is actively fostering expansion through billions in oil and gas subsidies and other financial supports, failing to assess the viability of energy projects in the 1.5°C world, and allowing oil and gas to continue in areas that are clearly federal jurisdiction, such as offshore.

Prime Minister Trudeau is coming to Biden’s Climate Summit with enhancements to Canadian climate policy. But, without moving to constrain fossil fuel production, any new emission reduction targets that Trudeau might announce will be a continuation of unmet climate commitments. To meaningfully confront the global climate crisis, Canada must remove support for the oil and gas sector and begin a gradual phase out of production. Key supply side policies for Canada include: prohibiting the leasing of federal lands and waters for fossil fuel production and infrastructure; implementing a “climate test” on all new fossil fuel projects and removing federal impact review exemptions; canceling the Trans Mountain expansion pipeline; divesting federal public investment funds from fossil fuel production; and removing federal subsidies and public financing that supports fossil fuel exploration, production, or transportation, including federal funding for technologies that delay a transition away from oil and gas.

In the **United Kingdom**, the government deserves huge credit for recently ending its financing for overseas oil, gas and coal projects. However, it missed a crucial opportunity to make progress on domestic oil and gas production when it failed to rule out issuing new licences as part of a recent policy review. Instead it has said it will introduce a “climate compatibility checkpoint” on new oil and gas production licenses. This approach is confused given the science is already clear that no new licenses could be compatible with the 1.5°C limit, and it is critical that civil society and the media scrutinise how this “checkpoint” is defined in the coming months. The UK will jeopardise its credibility as a genuine climate leader and the COP26 host if it fails to rule out expanding oil and gas production through new licences.

**Norway**’s stated climate ambitions are undermined by their position on oil and gas. While decarbonising domestically, they are the second largest exporter of greenhouse gases per capita (only beaten by Qatar), and continue to expand production into increasingly vulnerable Arctic environments. However, polls suggest the Norwegian people support ending oil and gas exploration in the Arctic, and a recent court decision found the government is obliged to consider emissions associated with burning any oil and gas extracted. In this context, all eyes will be on the election this September. In particular, whether the next government will show leadership and change the current plans to continue handing out new oil and gas licences.
The production and use of coal, oil, and gas needs to decrease quickly if we are to achieve the goals of the Paris Agreement on climate change.”

ANTÓNIO GUTERRES,
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