global witness

Briefing – October 2024

Why the UK Government should seek oil industry contributions towards climate loss and damage

Introduction

Climate change is hitting British families hard. Communities across the UK are already struggling to deal with bigger floods, hotter heatwaves, higher food prices and rising insurance bills, fully aware that unless carbon emissions are reined in, worse is on its way.

Meanwhile, the damage caused by climate breakdown in poorer countries – those least responsible and least able to pay – is even more severe, driving an escalating crisis that is uprooting millions of people from their homes and pushing millions more to the edge of famine.

While the burden for damage costs is falling squarely on taxpayers, the oil industry most responsible for the crisis is making billions in profits, yet contributes nothing. This is plainly unfair, and needs to change.

The Government's manifesto pledge to support countries at the forefront of climate breakdown is warmly welcome. Yet financial commitments to the UN Loss and Damage Fund, including from the UK, currently fall woefully short of what's required.

Governments around the world, from the US to Kenya to EU member states, are looking at new ways to fill this funding gap, including by contributions from the fossil fuel industry. As a major historical polluter, the UK has a responsibility to play a leading role in these efforts.

Global Witness is therefore calling on the Government to explore measures that would ensure the UK's oil industry contributes its fair share to the international Loss and Damage Fund, while helping to secure green investment and jobs within the UK.

Key facts

> **The oil and gas industry made an average of £5 billion profits from its UK production every year for the last thirty years.**

> **Carbon emissions from the world's biggest 25 oil companies caused an estimated £15 trillion-worth of economic damage globally from 1985 to 2018.**

> **Climate loss and damage could cut Botswana, Bangladesh and Pakistan's national income by a quarter by 2050.**

> In the UK, an additional £1.9 billion per year until 2030 is needed to ensure a just energy transition for oil and gas workers.

> Contributions to the UN Loss and Damage Fund amount to less than 0.2% of the annual cost of climate damages in developing countries.

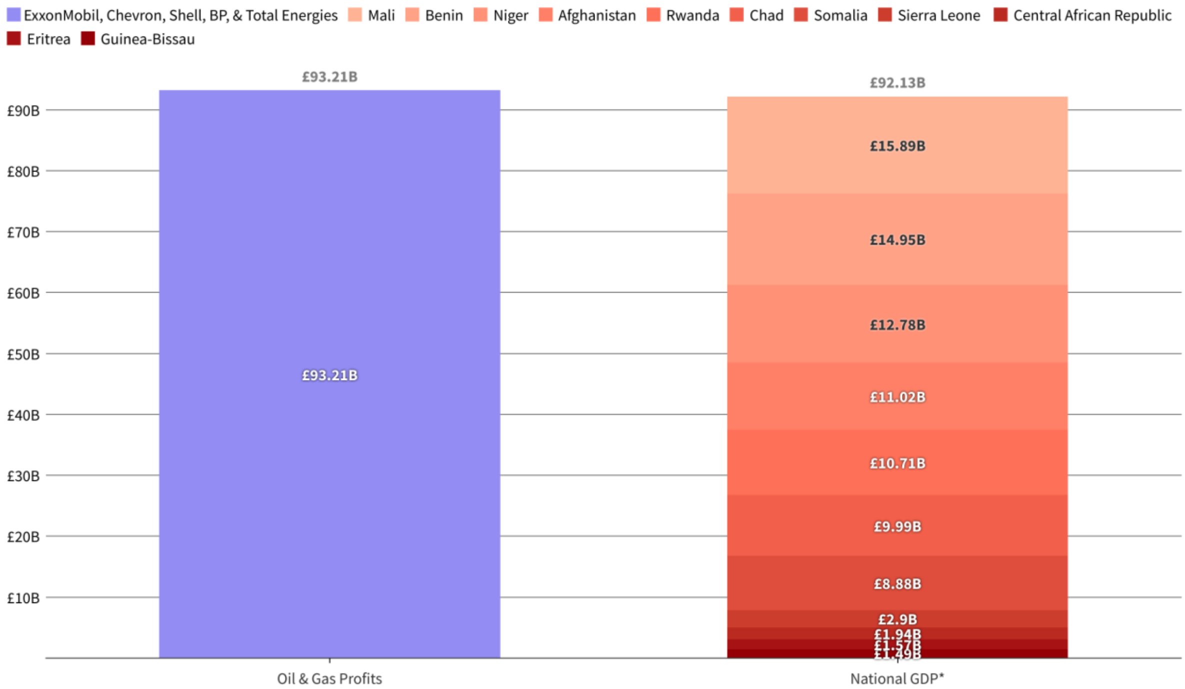
The UK oil industry is well placed to make contributions towards loss and damage costs

Oil and gas firms do famously well in the UK. On average, the industry made £5 billion profits after tax every year for the last 30 years from UK production – £150 billion in total.[1]

Oil companies have enjoyed particularly rich pickings since energy prices spiked in 2021. While families struggle to pay for food and energy bills, BP cleared £3.7 billion in after-tax profits from its UK production over the past three years. Shell's UK extractive business pocketed £2.7 billion profits over this period, while TotalEnergies' UK arm chalked up £4.8 billion.[2]

Global Witness analysis shows that these three companies, plus ExxonMobil and Chevron, made £93 billion in profits from global oil and gas production in 2023 – more than the combined GDP of the 11 poorest countries most threatened by climate disaster.[3]

ExxonMobil, Chevron, Shell, BP and TotalEnergies profits from oil and gas production in 2023 were greater than the combined annual GDPs of the 11 poorest countries most threatened by the climate crisis



*National GDP using the most recent year of available data for each country
Chart: Global Witness • Source: Analysis of Rystad Energy data, Notre Dame Global Adaptation Initiative - Vulnerability Index, World Bank

Globally, oil and gas companies hoovered up £2.3 billion in profits every day for 50 years from 1970 to 2020, according to research based on World Bank data.[4]

Insult to injury: communities suffer the effects and pay the costs of climate damage

While the oil industry counts its astronomical earnings, households are counting the cost of its planet-heating pollution. Whether it's through government spending or coming straight from people's pockets, communities in the UK and overseas are picking up the tab for carbon-driven destruction.

Emissions from the world's biggest 25 oil companies caused an estimated £15 trillion-worth of economic damage globally from 1985 to 2018, according to Climate Analytics. The research shows that the UK-based oil majors Shell and BP are responsible for £1.6 trillion of this amount.[5]

Looking further back in time, analysis of countries' domestic emissions from 1850 to 2021 shows the UK was the world's eighth biggest carbon polluter over this period.[6] When emissions from countries during the time they were under UK colonial rule are included, the UK becomes the world's fourth largest emitter since 1850.[7]

As global temperatures increase, so do the impacts and costs of climate breakdown. According to recent analysis by the Potsdam Institute, the economic costs of global heating are set to reach £30 trillion a year worldwide by mid-century.[8]

The costs in poorer nations – those least responsible, worst hit and least able to pay for the crisis – are higher than in rich countries. According to the Potsdam study, climate loss and damage could slash Botswana, Bangladesh and Pakistan's national income by a quarter by 2050, compared to their income had there been no global heating.[9]

In the UK, the number of people at significant risk of flooding could rise by 60% under 2°C of warming.[10] In England alone, around 5.7 million homes and properties were vulnerable to flooding as of 2023.[11]

Analysis by the Office for Budget Responsibility, which assumes a warming scenario consistent with current global climate policies, shows that river and surface flooding could cost the UK 2.2% of its GDP annually by 2073-74.[12] As a share of current GDP, this amounts to £60 billion – a figure that excludes other climate costs expected to rise in the UK, such as those caused by coastal flooding, droughts and heat-related illness.

Rich countries need to do more

At the COP27 summit in 2022, governments made a historic agreement to set up a Loss and Damage Fund, to support poorer nations with the costs of climate destruction. This was long campaigned for and welcome progress. Yet initial pledges for the fund were only £504 million as of March 2024, including up to £40 million from the UK.[13]

The initial round of contributions comes to less than 0.2% of the minimum loss and damage costs of £304 billion per year in developing countries.[14] Clearly, richer nations need to dig much deeper to fill the fund, and use innovative ways of doing so.

Contributions to the UN Loss and Damage Fund are a tiny fraction of the real cost to address climate change-related loss and damage in developing countries

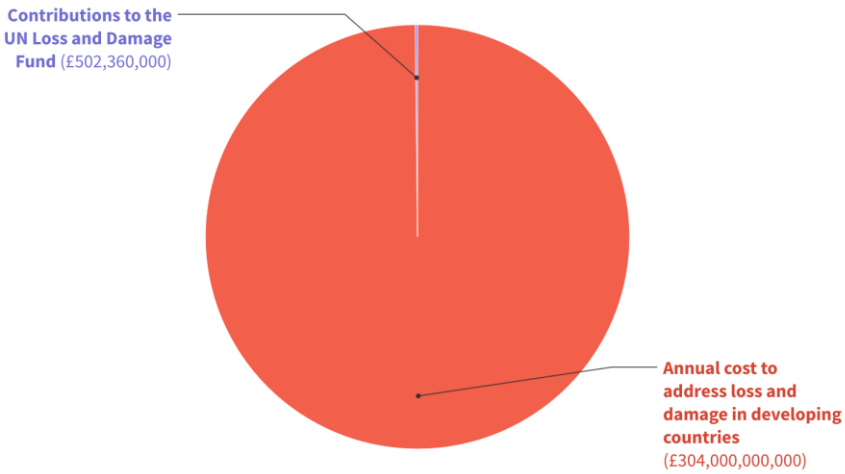


Chart: Global Witness • Source: Heinrich Böll Foundation

Also welcome are the UK Government's manifesto commitments to strengthen its climate leadership globally and support countries at the forefront of the crisis, including Pakistan and Bangladesh.[15] In April 2024, the then foreign affairs minister Andrew Mitchell stated that *"the UK will work to broaden the scale, scope and sources of financing for loss and damage."*[16]

But to give a sense of the scale of action needed to deliver on these promises, catastrophic flooding in Pakistan caused an estimated £23 billion of economic damage in 2022 alone. In Bangladesh, the damage costs from floods and cyclones are projected to reach £2.4 billion a year on average.[17]

The UK Government has an opportunity to make good on its promises by championing loss and damage on the global stage. This should include exploring options to ensure the UK's oil and gas industry contributes its fair share to the Loss and Damage Fund, as well as towards climate action in the UK.

International momentum for using new sources of climate finance is building. France, Kenya and Barbados co-chair a global taskforce, agreed at COP28, to identify new ways of funding climate action, including contributions from the fossil fuel industry.[18]

As of September 2024, the EU's draft negotiating text for the COP29 summit includes a call for new sources of climate finance, including from fossil fuel companies, to support the most vulnerable countries.[19]

Policy options: boosting domestic green investment while supporting global climate action

Climate Superfunds resourced by fossil fuel companies – new legislation in the US

Beginning in early 2024, several US states including New York, California and Vermont introduced bills to create climate Superfunds. These would be financed by contributions from fossil fuel producers and refiners active within these states, to invest in state-level climate projects.[20] Vermont's bill has now passed into law, although it is not yet in operation.

Following the states' lead, a group of Democrats introduced a Polluters' Pay Climate Fund Act to both houses of Congress in September 2024. Modelled on the state-level legislation, the Act applies to fossil fuel producers whose US operations emitted over one billion tonnes of carbon dioxide from 2000 to 2022.

Each qualifying company would contribute annual fees to a $1 trillion federal Superfund over 10 years, in proportion to its share of emissions over the 2000-2022 period. The income would be invested in climate projects across the US, including to cover loss and damage costs, with 40% of the funds reserved for environmental justice communities.[21]

The Climate Damages Tax – securing green investment at home while supporting communities overseas

The US legislation appears to focus solely on supporting domestic climate action, and is based on companies' historical emissions.

Another option is to base fossil fuel companies' contributions on the emissions from their ongoing production, starting from when the measure is adopted. The income would then be split between the international Loss and Damage Fund and domestic climate action projects.

This approach is taken by the proposed Climate Damages Tax (CDT). A model developed by civil society groups and academics in 2019, the CDT would ensure fossil fuel companies contribute a fee for every tonne of carbon that comes from the oil, gas or coal they extract.[22]

Each of these fuels emits different amounts of carbon dioxide, and science dictates that the amounts of carbon dioxide are fixed for each fuel. As oil and gas companies already report their production volumes in the UK, the fees would be easy to calculate and collect.

The CDT is designed for high income countries within the OECD, which built their wealth on carbon-based industrialisation and are most able to fund climate damage costs. Analysis by Global Witness shows that if implemented in the UK, the CDT would raise a cumulative £20 billion within 10 years.

Fossil fuel producing nations outside the OECD are encouraged to implement the CDT on a voluntary basis, which could help to fund climate action within those countries.

As with the US legislation, the CDT follows the 'polluter pays' principle: the more a company emits, the more it would owe. By focusing on companies' future production, the CDT would also provide an incentive for oil, gas and coal firms to switch to clean energy, by including the climate cost of fossil fuels into the cost of their ongoing production.

Investing in the UK's energy transition through a domestic dividend

The CDT proposes that the fees are shared between the Loss and Damage Fund and energy transition projects within implementing countries – a 'domestic dividend' – with a minimum 20% earmarked for local transition communities.

In the UK, North Sea oil reserves and investment are in decline. Despite soaking up lavish subsidies, generous tax breaks and hundreds of new licences, the UK oil and gas industry reportedly shed over 200,000 direct and indirect jobs – more than half the total – from 2013 to 2022.[23]

A broad, coherent and properly funded plan is needed to support oil workers shift to green jobs. As such, the UK Government's manifesto pledge to create new, high-quality jobs as part of the energy transition is welcome.[24]

Yet to date, responsibility for the North Sea transition has been left largely in the hands of profit-seeking oil companies, which are not set up to develop a coordinated and long-term strategy for workers.[25]

Alternatively, a planned, properly funded and worker-led North Sea transition – a proposal backed by trade unions and over 90% of 1,092 UK offshore workers surveyed – would help oil workers move into well paid and secure green jobs.[26] Climate groups estimate such a plan would need an additional £1.9 billion of government support per year until 2030,[27] a substantial part of which could be funded by a CDT-type mechanism.

Whichever approach is used, the amounts raised are bound to fall short of the trillions in damage costs that fossil fuel companies are responsible for. Even so, contributions from the global industry could still channel hundreds of billions directly to communities on the frontline of climate breakdown, as well as fund a fair energy transition at home.

Importantly, the money would also come in addition to, not replace, other sources of finance for climate action, including government funds.

Pushing back on industry pushback

Oil companies will almost certainly oppose making contributions to a UK climate fund, claiming it will encourage firms to relocate their business outside the country.

The hard truth is that the North Sea oil industry is in terminal decline. The most accessible reserves have been extracted, and major companies are already retreating from UK waters.[28] The response proposed by industry is another push to 'max out' the North Sea, an approach pursued by previous governments that relied on handing out hundreds more oil licences.[29]

Recent experience shows this would be unlikely to succeed. Research by Uplift shows that hundreds of new North Sea licences have been granted since 2010, yet only five new discoveries have been made under these licences, and just three of these are currently producing any oil or gas.

Some of the licences granted since 2010 were to exploit North Sea fields with previously known reserves. Yet only seven of these went into development over the same period. Together, these 12 newly discovered and newly developed fields would only provide the UK with enough oil to last 16 weeks, and enough gas to last nine weeks.[30]

The shift out of oil is already underway in the North Sea, whose high winds and shallow seabed are helping to turn it into a green power plant for Europe. This is all the more reason for the UK to act quickly to ensure oil firms contribute to climate action, so at least some of the revenues from an industry in its twilight years support those hit hardest by climate breakdown.

Another well-worn narrative promoted by industry is that consumers are responsible for global heating, by virtue of buying and benefiting from fossil fuel products.[31] But even if consumers share some responsibility for the crisis, few people would argue that oil, gas and coal companies are entirely blameless, and currently it’s only consumers who are footing the bill.

Major oil firms knew long before consumers did that the products they sell are leading the world down a path to climate chaos. The industry could have acted on this knowledge and started shifting to renewables many decades ago. Instead, oil companies chose to cover up the evidence and continue profiting from products that threaten to deprive humankind of a safe climate.[32]

When the damage caused by fossil fuel emissions became widely known, the industry changed tactics by denying or casting doubt on climate science, seeking to distract attention from its products’ harms, and delaying measures to shift towards clean energy.[33] This behaviour entrenched the fossil fuel industry’s dominant position, stymied the roll out of renewables, and gave consumers essentially no choice but to rely on oil, gas and coal.

Recommendations for the UK Government

The fossil fuel industry has gained immense riches by offloading the environmental costs of its products onto citizens for many decades. As deadly storms, heatwaves and wildfires become more frequent, intense and costly, a fair rebalancing of the scales is needed to lift the burden from taxpayers.

The new UK Government has shown it is willing to take on vested interests in the tobacco and junk food industries. Given the lack of accountability for oil companies’ climate impacts and the severe shortfall in climate financing, the Government has an opportunity to show it can stand up to fossil fuel interests too, become a global leader on loss and damage, and fulfil its climate pledges to communities at home and overseas.

Global Witness calls on the UK Government to review options for measures that would:

> Raise additional revenue for the Loss and Damage Fund by requiring oil and gas producing companies to contribute

> Include a domestic dividend to support UK communities and workers to transition to green industries

> Be additional to other sources of financing for climate action and a just energy transition plan

> Ensure that protections are in place to prevent costs being passed on to workers and consumers.

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