Extractive Industries
Transparency Initiative

Energy transition provisions in legal frameworks and fiscal regimes

EITI Requirement 2.1

Guidance note

2023 EITI Standard

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Contents

The energy transition is reshaping the oil, gas and mining industries, presenting both opportunities and challenges for resource-rich countries. This shift not only impacts public finances and the economic contributions of the extractive sector but also introduces new corruption and environmental risks and affects community livelihoods.

The energy transition therefore introduces additional complexity for stakeholders in resource-rich countries. The implications of the energy transition vary across countries, with the oil and gas sector experiencing distinct economic, governance, environmental and social impacts compared to the mining industry.

Consequently, the role of the EITI in strengthening transparency and dialogue on the energy transition also varies from country to country. Empowering stakeholders to navigate these changes is central to the EITI's mandate. Transparency regarding the legal framework and fiscal regime plays a vital role in aligning government policies on climate, energy and extractives. It fosters coordination among government institutions and ensures that government actions protect citizens and serve long-term public interests. Critically, transparency creates the foundation for informed and inclusive public debate that connects climate actors with stakeholders working on economic development, governance, anti-corruption and community impacts.

Requirement 2.1 of the 2023 EITI Standard advances transparency in this area. The requirement supports public understanding of all aspects of the regulatory framework for the extractive industries, encompassing the legal framework, fiscal regime, roles of government entities and reforms, as well as laws and regulations related to addressing corruption risks in the extractive sector. These provisions directly address the need to assist stakeholders in understanding and navigating the opportunities and challenges brought about by the energy transition.

To align with Requirement 2.1 of the 2023 EITI Standard, implementing countries are required to disclose national energy transition commitments, policies and plans that are relevant to the extractive industries. Furthermore, they are encouraged to disclose related reforms as well as information on carbon pricing mechanisms, public subsidies and other forms of state support significant to the extractive industries. This note provides step-by-step guidance to multi-stakeholder groups (MSGs) on how to implement the provisions in Requirement 2.1 related to the energy transition. It offers a structured approach to defining the objectives and scope of disclosures, collecting and disseminating information, and using disclosures to foster meaningful public debate on the impacts of the energy transition within the extractive sector.

The guidance provides a resource for EITI implementing countries as they prepare for Validation under the 2023 EITI Standard. It can be read in

conjunction with the EITI's policy brief, Navigating the energy transition: Data and dialogue to strengthen extractive sector governance, as well as other guidance relevant to the energy transition available on the EITI website.

BENEFITS OF LEGAL AND FISCAL REGIMES RELATED TO THE ENERGY TRANSITION

Disclosing information on the energy transition provisions in Requirement 2.1 has multiple benefits, including:

- **Building common ground:** Transparency is critical for allowing stakeholders to understand the opportunities and challenges of the energy transition. This can form the basis for meaningful and inclusive public debate among a broad set of stakeholders, connecting actors working on climate, economic, governance and social impacts to collectively navigate the energy transition's trade-offs.
- **Enhancing government coordination:** By disclosing information, government institutions can bolster coordination and streamline decision-making on climate, energy and extractives. This can ensure a cohesive and effective approach to managing the complexities of the energy transition.
- **Safeguarding public interests:** Transparency empowers scrutiny of government policy, ensuring its alignment with long-term public interests. This enables citizens to hold decision-makers accountable, builds trust and encourages collaboration crucial for a successful transition.

Overview of steps

STEPS	KEY CONSIDERATIONS
Step 1: Review the text of energy transition Requirement 2.1, i.e.: Requirements 1.2 (b), (c), (d) and (e) to establish the objectives and scope of disclosures	• How are global market dynamics and climate policy impacting or anticipated to impact the extractive industries? • What are the economic, environmental, social and governance implications of these changes for the country's extractive sector and for individual oil, gas and mining projects? • What are the potential benefits of disclosing information in line with Requirement 2.1? • What aspects of Requirement 2.1 should be disclosed? • How detailed should disclosures be? • Which stakeholders need to be engaged to collect, disclose, analyse and discuss the information?
Step 2: Map and collect data	• Where can the information be found? • Which government entities host the information?
Step 3: Disclose data	• What information should be captured in EITI reporting? • What information should be systematically disclosed on government platforms?
Step 4: Analyse disclosures	• What does the data tell us?
Step 5: Promote public debate	• Which stakeholder groups can benefit from having access to the information? • In which formats should information be disseminated to stakeholders to ensure that relevant information reaches stakeholders and can be used by them?

	• How can the EITI platform be used to promote public debate on the energy transition?

Key concepts

This section provides an explanation of some of the key concepts relevant to the implementation of Requirement 2.1 in relation to the energy transition and can help MSGs consider which aspects of the legal and fiscal framework to disclose. For more detailed explanations of the various concepts and policies, see Annexe A.

Economy-wide commitments

Most countries have national commitments, policies and plans to mitigate climate change by reducing net greenhouse gas emissions, which typically cut across economic sectors and are guided by the goals set out in 2015 in the Paris Agreement.[1]

Examples of economy-wide commitments include nationally determined contributions (NDCs); long-term low-emissions development strategies (LTS or LT-LEDS); net-zero policies; and national strategies to reduce short-lived climate pollutants. See Annexe A for further explanation of these types of commitments.

Energy sector policies and initiatives

Beyond economy-wide commitments to reduce net greenhouse gas emissions,[2] many countries have commitments, policies and plans specifically targeting the energy sector. In some instances, these efforts are framed around the need to ensure a "just transition" that mitigates potential negative impacts on workers, communities and vulnerable groups. Such measures can take the form of fossil fuel phase out/phase down policies; just energy transition policies and Just Energy Transition Partnership (JETPs); and methane policies and regulation. See Annexe A for further explanation of these types of policies and initiatives.

Mining sector policies and initiatives

The energy transition is spurring demand growth in the mining sector due to the significant use of minerals in low-carbon technologies like solar panels, wind turbines and electric vehicle batteries. In response to increased demand, many governments are putting in place measures to promote the production and supply of relevant minerals, such as mineral partnerships and sector policies. Governments may also maintain lists of strategic or critical minerals. See Annexe A for further explanation of these types of policies and initiatives.

Carbon pricing mechanisms

Carbon pricing mechanisms assign a monetary value to greenhouse gas emissions, aiming to elevate the cost of carbon-intensive energy production and consumption, thereby incentivising a shift towards low-carbon alternatives. These mechanisms can take several forms, including carbon taxes; emissions trading schemes; carbon border adjustment mechanisms (CBAMS); and internal carbon prices used by companies. See Annexe A for further explanation of these types of mechanisms.

Subsidies

Subsidies are financial contributions, income or price support provided by governments or public bodies to extractive companies.[3] They aim to lower production costs or provide benefits to consumers, encouraging activities and desired outcomes. Subsidies can take different forms, such as direct payments, tax breaks, grants, and offering goods or services below market value. The extractive industries can also benefit from other forms of state support, such as public investment in infrastructure that supports production and consumption of oil, gas and minerals. See Annexe A for further explanation of different types of subsidies and subsidy reforms.

How to disclose data on the energy transition provisions in Requirement 2.1

Step 1: Establish the objectives and scope of disclosures

As a first step, the MSG should collectively review the text of Requirement 2.1 to align on the objectives and approach. This review should establish the relevance of disclosures to the national policy context and MSG priorities. To achieve this, the MSG may:

1. **Develop a shared understanding of the energy transition context.**

- Discuss how the energy transition is impacting or likely to impact the country's extractive sector.
- Consider how global supply and demand trends, as well as climate measures, might impact the sector's outlook, recognising differing impacts across oil, gas and mining.
- Consider economic, governance, environmental and social implications at both a sector and project level.
- Building this shared understanding will help to ensure that disclosures are relevant to national priorities.

2. **Consider the objectives of disclosures.**

- Explore the potential benefits of the disclosures. These could include:
  - Strengthening alignment between government policies on climate, energy and extractives.
  - Generating data and debate to ensure government policies advance long-term public interests.
  - Contributing to informed and inclusive public debate that connects diverse stakeholders working across climate, economic, governance and social issues.

- Advancing domestic resource mobilisation, especially in the context of subsidy reform.

- Clarifying the objectives of disclosures ensures that they remain relevant to national priorities.

3. Determine the scope of reporting.

- Review required disclosures (Requirement 2.1.b): Review the "Key concepts" section and Annexe A to identify energy transition commitments, policies and plans that are relevant to the country's extractive sector and should be included in EITI reporting.

- Review encouraged disclosures (Requirements 2.1.c, d and e): Agree whether to disclose carbon pricing mechanisms, subsidies and reforms. To guide this decision, review the "Key concepts" section and Annexe A and identify aspects that are relevant to the country's extractive sector. For example, while a country may have carbon pricing mechanisms in place, it will be important to understand where in the value chain these are levied to determine whether they are applicable to the extractive sector and relevant for EITI reporting. The MSG may want to plan for a progressive approach to reporting, focusing initially on required disclosures, while including steps to expand reporting to cover encouraged disclosures in their work plans.

4. Agree the level of detail for reporting.

- Determine the level of detail of reporting, for example whether it will take the form of a description of the rules governing carbon pricing and subsidies or detailed disclosures of revenues and subsidies at sector, company or project levels.[4]

5. Identify relevant actors.

- Identify which actors should be engaged to support disclosure of data and public debate on the energy transition.

- Engagement may involve government agencies overseeing the oil, gas and mining sectors, finance, environment, climate and investment promotion, among others. National climate commitments are often the responsibility of the climate or environment ministries. Carbon taxes are usually managed by finance ministries, while emissions trading schemes are usually under the purview of environment ministries. In many countries, subsidies are the responsibility of the finance or economic development ministries. However, in some countries, subsidies are administered by the ministries of environment, mines or petroleum, or by state-owned enterprises.

- Ensuring disclosures foster informed and inclusive debate may also benefit from connecting early on with non-governmental actors working on climate issues, including civil society, academia, think tanks and the media.

Step 2: Map and collect data

Energy transition policies, commitments and plans, as well as carbon pricing mechanisms and subsidies, are typically overseen by different ministries who disclose information on government websites or through official publications.

1. Map out available data

Build an understanding of what data is already being disclosed and where this can be accessed. This can help the MSG avoid duplication and leverage existing systematic disclosures by government institutions.

2. Collect data

Once the MSG has a clear picture of existing public disclosures, it may need to engage relevant institutions identified in Step 1 to facilitate data collection.

Beyond national data sources, the MSG could draw on global databases to support data collection:

- **Climate laws and policies:** Climate Change Laws of the World is a global database covering national-level climate and energy transition legislation, policies, United Nations Framework Convention on Climate Change (UNFCCC) submissions and litigation. Results can be filtered by country and keyword (e.g. “oil and gas” or “just transition”).[5]

- **Climate commitments:** A public registry maintained by the UNFCCC provides access to countries’ nationally determined contributions (NDCs).[6] Additionally, countries submit long-term low-emissions development strategies (LTS/LT-LEDS) to the UNFCCC for disclosure on a separate public portal.[7] (See “Key concepts” section and Annexe A).

- **Carbon pricing:** The World Bank maintains a public dashboard summarising information on all active carbon pricing mechanisms worldwide, including information on the applicable carbon prices, sectors and shares of emissions covered, and annual value.[8]

- **Subsidies:** The Fossil Fuel Subsidy Tracker provides estimates of fossil fuel subsidies and support measures for 192 economies drawing on data from the OECD Inventory of Support Measures for Fossil Fuels, the IEA Energy Subsidies database, and the IMF Fossil Fuel Subsidies database.[9] By merging these datasets, the tracker captures:

- Programme-level data on consumption and production subsidies from the OECD inventory, where available (such as direct budgetary transfers and tax expenditures);
- Consumption subsidy estimates by the IEA and IMF (induced transfers using the "price gap" method, see Annexe A for more detail).

Step 3: Disclose data

Countries should aim to systematically disclose commitments, policies and plans, as well as information on carbon pricing mechanisms and subsidies, through government systems and websites. EITI reporting can play a role in consolidating and summarising this information to facilitate analysis and public debate.

To advance data disclosures, the MSG may consider the following:

1. National energy transition commitments, policies and plans

- Ideally, government commitments, policies and plans should be systematically disclosed through existing government systems. Where applicable, information should be machine-readable and disclosed in open data formats. Emphasis should be placed on ensuring information is easy to access and understand.
- EITI reporting could provide:
  - A summary description of the applicable commitment, policy or plan, focusing specifically on aspects relevant to the extractive industries. Emphasis should be placed on disclosing elements that are measurable, reported and verifiable, including specific targets and timelines;
  - An overview of the government institutions responsible for developing and implementing the commitment, policy or plan;
  - An explanation of any accountability or oversight mechanisms;
  - An explanation of any reporting and disclosure obligations, including whether and how these commitments, policies and plans are integrated into reporting to the UNFCCC;
  - Guidance on accessing the full text of official documents.
- As much as possible, the MSG should seek to disclose information not only on the final commitments, policies and plans but also on ongoing government reforms. This is critical for ensuring citizens can weigh in on future policy trajectories.

CASE STUDY

Trinidad and Tobago: Reporting on national climate commitments through the EITI

Trinidad and Tobago's EITI reporting describes the country's commitments under the Paris Agreement, including an overview of emissions data and reduction targets and climate and energy transition measures applicable to the extractive industries. Reporting covers the development of a monitoring, reporting and verification system for tracking national greenhouse gas emissions; a forecasting model to project emissions until 2050; and an update of the National Climate Change Policy to align with the goals of the Paris Agreement. EITI reporting also references the development of a just transition workforce policy to address the socio-economic consequences of the energy transition.

Source: TTEITI (2023). Trinidad and Tobago EITI Report FY2021.

2. Carbon pricing

- Ideally, information on carbon pricing mechanisms should be systematically disclosed through existing government systems.
- EITI reporting could provide a summary description and guidance on where to access more detail.
- Public disclosures should describe:
  - Economic activities, sectors or specific companies covered by carbon pricing mechanisms, including any exemptions applicable in the extractive sector;
  - Government institution(s) responsible for administering the carbon pricing mechanism;
  - Applicable carbon price;
  - Proportion of national or sector emissions covered;
  - Revenue generated (ideally disaggregated by company or project);
  - Revenue allocations, including explanation of any earmarking provisions.

GOING BEYOND THE EITI STANDARD

Companies participating in EITI reporting can support disclosures on carbon pricing by reporting on compliance with such mechanisms, as well as on the use of internal carbon prices. Disclosures could include:

- Overall net zero greenhouse gas emissions targets;
- Identification of national or subnational carbon pricing mechanisms and taxes applicable to the company's operations;
- Details of compliance with emissions trading schemes, including percentage of emissions covered, allowances allocated or purchased within the reporting period and ownership status of facilities subject to the emissions trading scheme;
- Details of compliance with carbon tax systems, including percentage of emissions covered and payments made to government;
- Details on compliance and regulatory risk management strategies, including the specific metrics and mechanisms used;
- Where feasible and applicable, details on the use of internal carbon prices, including the objectives for use, the applicable price (or range of prices), the emissions and business activities covered, detail on how internal prices are integrated into company decision-making and the impact on the business.

Companies could further consult CDP's guidance on best practices for companies on disclosing information on carbon pricing.[10]

CASE STUDY

Germany: Shedding light on the energy transition policy landscape

Germany is a significant coal producer, which is used for electricity generation in Europe and domestically. The country has passed legislation to phase out coal-fired power by 2038 at the latest. The government has also set a legal target for 80% of Germany's electricity mix to come from renewables by 2030.

Germany uses the EITI for multi-stakeholder dialogue and reporting on the energy transition. The country's EITI reporting describes legislation to phase out coal and how this impacts the electricity market, including cost analysis on reduction targets and details on subsidies for the decommissioning of coal-fired power plants. Reporting also covers environmental protection and restoration requirements, federal support for coal mining regions, and details on the national emissions trading scheme. Moreover, EITI reporting provides contextual information about the country's renewable energy sector, including market trends, details on subsidies, and an analysis of the sector's economic contributions, including its impact on employment.

Source: D-EITI (2023). Report for 2020.

3. Subsidies

- Ideally, information on subsidies and other forms of state support should be systematically disclosed through existing government systems.
- As part of this, governments should identify, measure and record existing subsidies, focusing on quantifying and assessing as many subsidies as possible, but reporting all subsidies even if they cannot be quantified at the time of reporting. Governments could consult the UNEP and IISD's template to guide this process.[11]
- EITI reporting could provide a summary description and guidance on where to access more detail.
- Public disclosures should describe:
  - Qualitative scope of subsidies, sectoral reviews, and progress on subsidy reforms;
  - Direct transfers;

- Induced transfers (reporting on regulated prices and calculation of the total amount);
- Tax expenditure and other foregone government revenue;
- Under-pricing of goods and services, price caps or risk transfers.

CASE STUDY

Nigeria: Visualising the process for government subsidies to consumers for petroleum products

Nigeria's national oil company, NNPC, provides subsidies for the sale of domestic refined petroleum products, with prices determined by the government. However, the government only partially compensates NNPC for its losses. To compensate for the shortfall, NNPC deducts funds from its sales of domestic crude oil before remitting the proceeds to the government, effectively bypassing budgetary recording.

Nigeria's EITI reporting identifies these unrecorded subsidies as quasi-fiscal expenditures, which calculates the difference between NNPC's subsidy costs and the government's compensation. Nigeria's EITI reporting includes a flowchart to clarify the nature and cost of these subsidies.

The issue of these payments has sparked public debate on the long-term implications of such subsidies. In 2023, the Nigerian government removed its petrol fuel subsidy amid growing concern over its high costs.

Source: Nigeria EITI (2019). NEITI 2018 Oil and Gas Industry Report.

Step 4: Analyse disclosures

Once the data is collected, the MSG should consider how it can help advance the objectives discussed in Step 1, potentially in conjunction with other data from the EITI and other sources.

Questions to consider when analysing disclosures include:

- Is there coherence between national policies for climate, energy and extractives, or do different policies advance conflicting or contradictory goals?
- Do carbon pricing mechanisms, as well as subsidies and other forms of state support, incentivise or disincentivise certain types of extractive activity? (See

Requirement 4.1 for related disclosure requirements on tax deductions and incentives.)

- What are the likely implications of these measures for the commercial viability and future trajectory of the country's extractive sector and/or specific oil, gas or mining projects?
- What opportunities or risks do these measures entail for public finances and the sector's broader economic contributions, including in the communities and regions where extractive projects are located? (See Requirement 5.3 for related disclosure requirements on revenue forecasting and Requirement 6.3 on the extractive sector's economic contributions)
- What are the revenue implications of subsidies and the associated opportunity costs for public spending?
- Could any of the policy provisions covered in Requirement 2.1 give rise to corruption or conflicts of interest?
- Are licensing decisions in the extractive sector aligned with climate and energy policies? (See Requirements 2.2, 2.3 and 2.4 for related disclosure requirements on license and contract allocations.)
- What are the potential environmental and social consequences of energy transition and extractive sector policies? (See Requirement 6.4 for related disclosure requirements on the environmental and social impact of extractive activities.)
- To what extent do extractive sector policies advance or hinder climate goals?
- Are energy transition policies being developed and implemented in an inclusive manner that takes account of the perspectives and priorities of a diverse range of stakeholders?
- In some instances, the MSG may wish to engage partners or technical experts to analyse disclosures and facilitate discussion on the findings. The MSG could formulate recommendations that would support efforts to maximise opportunities and mitigate risks in the context of the energy transition.

Step 5: Promote public debate

Based on the findings from Step 4, the MSG should consider how best to promote public debate on the implications of the energy transition for the country's extractive sector. In its efforts to promote public debate, the MSG may need to connect with stakeholders working on climate and energy transition issues beyond the extractive sector.

Where applicable, the MSG should seek to connect with existing national Action for Climate Empowerment (ACE) measures. ACE is a term adopted by the UNFCCC and the Paris Agreement to describe efforts to enable citizens to engage in climate action, through education and public awareness, training, public participation, public access to information and international cooperation.

Measures could include:

- **Disseminating information**

  In accordance with Requirement 7.1, the MSG should ensure that government and company disclosures are comprehensible, actively promoted, publicly accessible and contribute to public debate. To that end, the MSG should disseminate disclosures from Step 3 and the insights from Step 4 to relevant stakeholders. In doing so, the MSG should consider what formats are best suited to ensure target stakeholders can access, understand and use the information. The MSG may consider:

  - Using different channels of communication (e.g. social media, TV, radio, newspaper)
  - Simplifying and summarising information (e.g. factsheets and infographics)
  - Addressing linguistic or cultural barriers (e.g. translating information into local languages)

- **Facilitating public debate**

  The MSG could facilitate public debate on the opportunities and challenges identified in Step 4. In doing so, the MSG could engage stakeholders who may not normally be involved in the EITI process (e.g. parliamentarians, climate and environmental organisations, journalists, local communities or subnational governments). The MSG may consider different formats for engagement (e.g. bilateral meetings, workshops, conferences). Informed and inclusive public debate should not only be supported once commitments, policies and plans are in place, but crucially also in their development.

CASE STUDY

Ghana: Informing national debate on transition mineral policy

Ghana EITI commissioned a study, with support from USAID, to map socio-economic opportunities and governance challenges in the country's transition minerals sector. The study aimed to empower policymakers and stakeholders with credible data to navigate the complexities of an evolving landscape.

Findings from the study have since informed Ghana's National Energy Transition Framework, published in November 2022, as well as public debate around the need for mineral beneficiation policies. The government is currently updating its mining policy, which is expected to align with recommendations from the report to integrate transition minerals as part of the government's energy policy.

Source: Ghana EITI (2022). The energy transition and critical minerals in Ghana: Diversification opportunities and governance challenges; Government of Ghana (2022). National Energy Transition Framework Abridged Version.

CASE STUDY

Colombia: Facilitating public debate on a just transition

To advance community priorities in the energy transition, the EITI launched the "Engaging communities in a just transition" project in 2022 with support from the Ford Foundation. Implemented in Colombia, Ghana and Indonesia, the project explores how the energy transition is impacting community livelihoods and the obstacles that citizens face in accessing and using data and dialogue platforms. It seeks to strengthen the EITI's relevance at the community level.

In Colombia, the project supported a national energy transition forum in 2023 which brought together national and community level stakeholders to discuss the opportunities and challenges of the energy transition. The Ministry of Energy and Mines subsequently drew on recommendations of the project in the consultation phase of the development of the national energy transition roadmap.

Source: EITI (2023). Engaging communities in a just transition.

Annexe A: Key concepts explained

This section provides further explanation of some of the key concepts relevant to the implementation of Requirement 2.1 in relation to the energy transition and can help MSGs consider which aspects of the legal and fiscal framework to disclose.

Economy-wide commitments

Most countries have national commitments, policies and plans to mitigate climate change by reducing net greenhouse gas emissions, which typically cut across economic sectors and are guided by the goals set out in 2015 in the Paris Agreement.

Long-term, low-emissions development strategies (LTS or LT-LEDS)

As per the Paris Agreement, countries should formulate and communicate long-term, low-emissions development strategies. These often refer to the extractive industries (see "Country examples" below). Such strategies can guide shorter-term commitments, such as nationally determined contributions (NDCs).

Nationally determined contributions (NDCs)

NDCs are commitments by individual countries under the Paris Agreement to mitigate greenhouse gas emissions and adapt to climate change impacts, recorded in a public registry administered by the UNFCCC. NDCs must be updated every five years. Like LT-LEDS, the NDCs of many countries explicitly refer to the extractive industries (see "Country examples" below).

National strategies to reduce short-lived climate pollutants

Short-lived climate pollutants, such as methane, have a potent impact on near-term global temperature increases despite their shorter atmospheric lifespans compared to carbon dioxide. To address this challenge, a growing number of countries are implementing strategies to mitigate these pollutants, often through targets and measures directed at the extractive sector (e.g. reducing gas flaring and fugitive methane emissions).

Net zero policies

Net zero policies aim to balance greenhouse gases emissions with removal or offsetting, with many governments setting or proposing "net zero" emissions

targets.[12] Such policies can have relevance for the extractive industries by targeting reductions in fossil fuel production or consumption or by seeking to reduce emissions associated with the extractive sector's operations. "Net zero" policies can also have a more indirect impact on the extractive industries, for example through measures targeting emissions associated with land use changes.

COUNTRY EXAMPLES

The extractive industries in national climate plans

The national climate commitments (e.g. NDCs and LTS/LT-LEDS, see above) of many countries mention the extractive industries, especially the fossil fuel sector.[13] This can take different forms. Some countries set out targets to wind down fossil fuel use. For example, Germany's long-term strategy for climate action targets an end to coal-fired power generation by 2030. Others set out measures to incentivise a shift away from fossil fuels. For example, Nigeria's 2050 Long-Term Vision refers to a need for subsidy reform and a carbon tax.

Many countries are grappling with the need to align policies for economic growth and energy with climate goals. As a result, some national climate commitments acknowledge that there will be a continued or expanding role for the fossil fuel sector in the country's economy. For example, Mongolia's NDC describes a role for coal bed methane production. Argentina's NDC refers to a growing importance of natural gas. Senegal's NDC anticipates expanding oil and gas production.

In some instances, climate commitments include measures to reduce the extractive sector's emissions. Colombia's NDC includes plans to develop a climate risk analysis methodology for the fossil fuel sector as well as management of fugitive emissions in the sector. Guinea's NDC envisages a "net zero" emissions pathway for the country's mining industry by 2040. Nigeria's 2050 Long-Term Vision seeks to reduce emissions from the oil and gas sector through the elimination of flaring.

Some climate commitments also refer to the need to manage the socio-economic impacts of the energy transition, including implications for businesses and those working in the sector. The UK's Net Zero Strategy refers to collaboration between government, industry and unions on transition planning for the North Sea oil and gas industry. Colombia's NDC refers to retraining programmes for artisanal and small-scale miners operating in fragile ecosystems to incentivise a switch to more sustainable economic activities.

Source: UNFCCC. NDC Registry and Long-term strategies portal.

Energy sector policies and initiatives

Beyond economy-wide commitments to reduce net greenhouse gas emissions, many countries have commitments, policies and plans specifically targeting the energy sector. In some instances, these efforts are framed around the need to

ensure a "just transition" that mitigates potential negative impacts on workers, communities and vulnerable groups.

Fossil fuel phase out/phase down policies

In 2023, the COP28 negotiations resulted in a call for countries to transition away from fossil fuels in their energy systems.[14] At the national level, governments may pursue policies to reduce the contribution of fossil fuels, or specific types of fossil fuels such as coal, in a country's economy. These can target both the production and consumption of fossil fuels. Measures may include carbon pricing, subsidy reform, bans on exploration or development of new fossil fuel projects and infrastructure, and in some cases the closure of existing facilities. "Phase down" refers to efforts reduce the contribution of fossil fuels in a structured manner, while "phase out" refers to a complete cessation in the use of fossil fuels.

Just Energy Transition Partnerships (JETPs)

JETPs involve collaborations between host governments and partner governments to help countries transition away from fossil fuels while addressing risks for workers, communities and businesses. JETPs seek to mobilise and allocate public and private financial resources and technical assistance towards this goal.[15]

Just transition policies and strategies

These policies and strategies outline how countries plan to transition away from fossil fuel production and consumption, prioritising societal protection, particularly for workers and communities, against potential negative consequences. "Just transition" considerations may also have relevance in the minerals sector (see below).

Methane policy and regulation

Governments are increasingly using regulations and policies to cut down on methane emissions associated with the fossil fuel industry. More than 155 countries support the Global Methane Pledge.[16] Domestic measures may encompass mandates regarding the collection and disclosure of emissions data, requirements for leak detection and repair, and restrictions on venting and flaring. In some cases, such as the EU's Methane Regulation, these requirements extend to global supply chains, thereby carrying implications beyond the countries implementing the regulations.[17]

Mining sector policies and initiatives

The energy transition is spurring demand growth in the mining sector due to the significant use of minerals in low-carbon technologies like solar panels, wind turbines and electric vehicle batteries. In response to increased demand, many governments are putting in place policies and plans to promote the production and supply of relevant minerals.

Mineral partnerships

Governments may engage in international partnerships related to mineral supply. Such partnerships are often motivated by concern among importing countries over the concentration of minerals production and processing in a relatively small number of countries, and aim to mitigate the risk of supply disruptions. Such partnerships may have the objective of fostering responsible and sustainable mineral production and supply.

Mineral sector policies

Countries may develop national strategies, policies or roadmaps for the minerals sector to capitalise on global demand and guard against supply disruptions and price spikes. Measures can include incentives for exploration and mine development, and provisions for minerals stockpiling and export bans, among others. Mineral sector policies may also include "just transition" considerations, which seek to balance the economic, environmental and social trade-offs associated with growing minerals production.

Strategic mineral lists

Governments may maintain lists of minerals designated as strategic or critical,[18] often outlining policy provisions to promote exploration, production, import, stockpiling, or export bans, among other measures.

Carbon pricing mechanisms

Carbon pricing mechanisms assign a monetary value to greenhouse gas emissions,[19] aiming to elevate the cost of carbon-intensive energy production and consumption, thereby incentivising a shift towards low-carbon alternatives. These mechanisms can take several forms. The list below provides an illustrative overview of some of the most common approaches.

Carbon taxes

Carbon taxes capture a range of measures to levy a tax on the carbon content of fossil fuels at various points, from extraction and processing to consumption. Most carbon taxes are applied midstream (i.e. after refining and processing). Revenues from carbon taxes typically flow to general government budgets or

are sometimes earmarked for specific purposes, such as environmental spending.

Carbon border adjustment mechanisms (CBAMs)

Some countries or regional blocs may introduce import tariffs to safeguard their domestic industries against "carbon leakage". This term refers to the risk of industrial production and associated emissions relocating from one country to another due to variations in carbon pricing and other forms of government climate policies. With CBAMs, the liabilities typically depend on the intensity of greenhouse gas emissions from imported goods, the disparity between the carbon price in the country of origin (if applicable), and the hypothetical carbon price that would have been imposed had the good been produced domestically.

Emissions trading schemes

Emissions trading schemes, also known as cap-and-trade schemes, set a cap on permissible emissions within specific sectors or among designated companies. Companies must hold allowances covering their emissions, with those reducing emissions able to sell excess allowances, creating financial incentives for emission reductions. Government revenues generated by emissions trading schemes are often earmarked for environmental spending.

Internal carbon prices

Many companies apply a monetary value on emissions to guide their internal decision-making related to climate change impacts, risks and opportunities. Internal carbon pricing aids companies in identifying vulnerable business models and assessing resilience to transition risks.

Subsidies

Subsidies are financial contributions, income or price support provided by governments or public bodies to extractive companies.[20] They aim to lower production costs or provide benefits to consumers, encouraging activities and desired outcomes. Subsidies can take different forms, such as direct payments, tax breaks, grants, and offering goods or services below market value. The extractive industries can also benefit from other forms of state support, such as public investment in infrastructure that supports production and consumption of oil, gas and minerals.

Producer subsidies

Producer subsidies involve direct or indirect government support to producers in the extractive sector. Such support can take various forms, such as companies enjoying reduced prices for inputs, receiving direct financial transfers from the government, or benefiting from tax breaks and other incentives. These measures help to increase profitability and cash flow and can incentivise investment and production.

Pre-tax consumer subsidies

Pre-tax consumer subsidies occur when domestic retail prices are set below international market prices for a commodity (adjusted for transportation and distribution costs but before taxes are applied). Such subsidies are also known as induced transfers or price support.[21] For example, many governments cap prices for petroleum products like diesel and gasoline for some or all domestic consumers, resulting in foregone revenue or losses for producers. Another common example is below-market pricing for crude oil, natural gas or coal to power plants that generate electricity for domestic consumption. Such subsidies are usually assessed by examining the difference between domestic and international prices (referred to as the "price gap" approach).

Post-tax consumer subsidies

Post-tax consumer subsidies are applied to commodities retailing at or above international market prices and after taxes have been calculated, or by exempting such taxes. For example, gasoline might be imported at market prices and subject to an excise tax. If the extractive sector is exempt from excise, this is a post-tax subsidy. The post-tax subsidy can also be provided as a direct transfer, such as direct payments to vulnerable consumers to help with energy costs. Post-tax subsidies are not generally captured by the "price gap" approach and their quantification requires an assessment of individual measures, such as through an inventory approach.

Subsidy reforms

Many countries view subsidy reform as an important aspect of their energy transition plans. Various global commitments exist to rationalise and phase out inefficient subsidies, including through the G7, G20 and APEC. The UN's 2030 Agenda for Sustainable Development includes fossil fuel subsidy reform under Sustainable Development Goal 12.[22]

Further resources

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Endnotes

1 The Paris Agreement is a legally binding international treaty aiming to limit global temperature increases. One hundred and ninety-four states, plus the European Union, have joined the Paris Agreement.

2 Most carbon pricing mechanisms assign a monetary value to carbon dioxide, which is associated with the burning of fossil fuels and represents the most prevalent greenhouse gas. Similar pricing mechanisms can in principle also be applied to other greenhouse gases like methane and nitrous oxide.

3 There are several definitions of subsidies used by different organisations, but the most commonly accepted and legally binding definition is from the World Trade Organization's (WTO) Agreement on Subsidies and Countervailing Measures (ASCM). See World Trade Organization, Agreement on Subsidies and Countervailing Measures ("SCM Agreement"). Retrieved from WTO Agreement on Subsidies and Countervailing Measures (ASCM). For more information on the role of subsidies in the extractive sector, see EITI (2021). *Subsidies at what cost? Shedding light on state support for fossil fuel consumption.* Retrieved from https://eiti.org/documents/subsidies-what-cost.

4 The EITI Standard defines a project as "operational activities that are governed by a single contract, license, lease, concession or similar legal agreement, and form the basis for payment liabilities with a government." EITI (2023). 2023 EITI Standard. Retrieved from https://eiti.org/eiti-standard.

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20 There are several definitions of subsidies used by different organisations, but the most commonly accepted and legally binding definition is from the World Trade Organization's (WTO) Agreement on Subsidies and Countervailing Measures (ASCM). See World Trade Organization, Agreement on Subsidies and Countervailing Measures ("SCM Agreement"). Retrieved from WTO Agreement on Subsidies and Countervailing Measures (ASCM).

21 Induced transfers or price support measures encompass a range of government subsidies aimed at shaping economic outcomes, including through market regulation, border protection or restrictions, regulated pricing strategies for both consumers and producers, and cross-subsidies within sectors such as the extractives industry. See UNEP (2019). *Measuring Fossil Fuel Subsidies in the Context of the Sustainable Development Goals*. Retrieved from https://www.unep.org/resources/report/measuring-fossil-fuel-subsidies-context-sustainable-development-goals.

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