BRIEFING
APRIL 2020

IN THE FACE OF COVID-19,
GOVERNMENTS HAVE A CHOICE:

RESILIENT SOCIETIES OR FOSSIL FUEL BAILOUTS?

The COVID-19 crisis poses a threat to people's health, their jobs, and their lives, and like all crises, exacerbates already existing inequalities. Trillions in public finance will be needed to get through this. This briefing outlines why continuing to rely on fossil fuels, in particular oil and gas, is not compatible with long-term recovery. It does not make sense to use the COVID-19 stimulus packages to try to revive a sunsetting industry which will not deliver on economic recovery, only to shut it down a few years later to meet climate goals.

Instead, this is the moment to fund a just transition off of fossil fuels that protects workers, communities, and the climate. Governments should invest in a green recovery that protects and creates long-lasting jobs, build resilient economies, and accelerates climate action. This briefing details why this is the most effective route for recovery and lays out the do's and don'ts for governments in their response to the current crisis.

This Is What an Unmanaged Decline of Oil and Gas Looks Like

The global oil market is currently being impacted by three converging factors: Unparalleled demand destruction driven by the COVID-19 crisis,[1] an oil price shock, and long-term structural decline driven by renewables and decarbonization.

It is important to expand on the last point: Even before the COVID-19 crisis, the fossil fuel industry was already showing signs of permanent decline. During eight of the last nine years, energy stocks underperformed the broader market, while renewable stocks outperformed the index by 20 percent in 2019.[2] Last year the oil and gas sector placed dead last in the Standard & Poor's 500 index. In the 1980s, oil and gas companies represented seven of the top ten economically performing companies; today there are none.[3]

While the fossil fuel sector may struggle to return to business as usual, without policies aimed at emerging from the crisis with a cleaner energy system, surviving companies may be in a position to capitalize on rising oil prices as the cycle turns. There are currently no safeguards against a future price spike and subsequent return to the volatile boom-bust cycle.

The current situation is a case study in unmanaged decline of the fossil fuel sector. Job loss is rampant, with 1 million (21 percent of the current total) jobs likely to be cut in the oilfield service industry,[4] while companies will likely prioritize maintaining CEOs' salaries and shareholders' dividends, or reorganize debt via bankruptcy proceedings. At the same time, the current crisis is having a disproportionate and growing impact on poorer oil- and gas-producing states, as demonstrated by Nigeria's recent request for support from the International Monetary Fund.[5] This illustrates the critical importance of a managed decline focused on global equity as well as a just transition for workers. In addition, climate-aligned government intervention will be critical to avoid undermining the relative competitiveness of renewables with low fossil fuel prices, leading to less efficient use of oil and gas.

The fossil fuel sector has been quick to opportunistically seize on the global COVID-19 health crisis with requests for massive subsidies and bailouts.[6] The industry is demanding government bailouts, subsidies, regulatory rollbacks, and the postponement of climate measures, while prioritizing CEOs' salaries and shareholders' dividends. Governments have a choice to make in responding to these calls: They can either entrench the reliance on a volatile industry that threatens long-term economic stability and climate goals, or they can use recovery measures to ensure a just transition off oil and gas, accelerate climate goals and build resilient societies, and center people instead of corporate executives and shareholders. This briefing advises governments to do the latter and tackle today's parallel health, economic, and climate crises at once.

How To Build Resilient Societies That Prioritize the Health and Safety of People

Once the immediate health emergency has subsided and the pandemic is under control, building a model of resilient economic development needs to be the first order of priority for governments across the world. A global economic system powered by fossil fuels has shown to be profoundly vulnerable to disruption. It has fostered growing inequalities in and between countries, and has destabilized the climate in a matter of decades. We know that there is enough embedded carbon in already operating oil, gas, and coal production to take us beyond 1.5ºC or even 2ºC.[7] A just recovery must include an end to expansion in the sector as well as a 1.5ºC-aligned just and equitable managed decline of existing production.

In the short-term, there are clear economic reasons why placing supply-side measures at the heart of the recovery policy toolbox will create a more resilient economy for all:

- With unemployment rates soaring and communities losing their livelihood, the recovery needs to focus on supporting labor-intensive sectors. Studies have shown that the renewable energy sector, whose growth will be essential to meeting our climate objectives, is substantially more jobs-intensive than the declining fossil fuel extraction sector.

- Investments made today to support fossil fuel extraction are likely to perpetuate lock-in for decades to come and, ultimately, lead to further economic instability and losses as cascading climate impacts necessitate the emergency shutdown of the industry that caused them.

- Clean energy is already outcompeting fossil fuel on costs. As a result, an increasing number of studies have shown that a global energy system powered almost exclusively by renewable energy by 2050 is both technically feasible and economically optimal.

- The use of demand-side or end-of-pipe measures as the primary tools of climate policy has failed to curtail the production and use of fossil fuels and has at times justified continued investment in oil and gas production. For instance, Norway's Equinor used its decision to power its oil rigs in the Johan Sverdrup field with renewable energy as justification for continuing to expand production.[8]

- Beyond locking in emissions, expanding fossil fuel supply shrinks the amount of public and private capital available to solutions to climate change, like renewable energy, and other non-destructive and resilient economic sectors. The massive subsidies available to fossil fuel companies keep them in business even during challenging economic conditions such as the current one. Beyond wasting scarce public funds, these subsidies make private investors less likely to shift their investments to renewable energy.

The following table, followed by a more elaborate discussion of each point, considers the 'do's' and 'don'ts' for governments responses to COVID-19 in relation to oil and gas. These policy approaches may not all be appropriate for every government, and should be considered in the context of political realities, the needs of frontline communities, and global equity principles.

Political Pathways for Recovery: Do’s and Don’ts

Forward-Looking Approaches
Creating the world we need

1. **Do ensure national and international equity and a just transition is at the heart of any government response to the current crisis.**
2. **Do protect workers and communities affected by the crisis, including those in the oil and gas sector, and create long-lasting green jobs** by investing in resilient infrastructure and growing the existing and emerging low-carbon industries that will continue to create jobs for decades to come.
3. **Do ensure Green New Deal frameworks provide the basis for stimulus packages** to help rewrite the social contract in a people-centered response to the current crisis.
4. **Do end fossil fuel subsidies and finance** and ensure any carbon price reflects climate and equity imperatives in order to ensure renewables remain competitive and incentivize efficient energy use in light of low oil prices while supporting a just transition.
5. **Do introduce oil and gas production caps** as a first step to limiting emissions. The world is running out of storage capacity and production limits are needed to ensure a managed decline of the industry.
6. **Do make decision-making processes and response measures transparent** in order to allow public scrutiny.
7. **Do bring the fossil fuel industry into public ownership, if the circumstances are right.** If paired with a clear plan for a managed decline of the sector this may provide the most straightforward path to ensure a just transition for workers and communities.
8. **Do link any support provided to the industry to a requirement to align with climate goals and plan for a managed decline.**
9. **Do ensure the polluter pays principle is upheld.** Broadly speaking, over the past few decades, the financial rewards of the industry have been privatized, while the risks have been socialized.

Destructive Approaches
Entrenching the bad

1. **Don’t bail out oil and gas companies or increase subsidies.** Any support should center workers, not corporate executives and shareholders, and should be made conditional on enforceable plans for a managed decline in line with climate goals and appropriate taxation of the industry. Shareholder dividends and buybacks should be disallowed until any public finance is paid back in full.
2. **Don’t bail out other polluting industries,** such as the aviation and shipping industries. In case of any support, this should be provided on the condition that it gets invested in green technologies, the industry starts paying taxes, and reduces emissions in line with 1.5C.
3. **Don’t continue the construction or operation of fossil fuel infrastructure** at the expense of the health of workers and communities.
4. **Don’t roll back existing policies or regulations, or extend licensing agreements.**
5. **Don’t delay responses to the climate crisis amid the flurry of immediate priorities.** If anything, the current pandemic has shown that a crisis demands a timely response to prevent it from escalating further.

Do: Ensure an Equitable, Just, and Managed Decline of Oil and Gas to Build Long-Term Resilience

1) Do ensure that national and international equity, solidarity, and justice. are at the heart of any government response to this crisis.

The COVID-19 crisis exacerbates already existing inequalities. Due to disparities in wealth, health, access to energy, sanitation, and other infrastructure, some individuals, communities, and countries are or will be hit much harder than others. Recovery must therefore be developed based on principles of equity and justice, minimizing immediate harm while building more healthy, equitable, and resilient societies into the future.

Next to prioritizing the protection of the most vulnerable people at the national level, this is a crucial moment for rich countries to show international solidarity. Most countries in the Global South are currently at the beginning stages of the pandemic, but do not have the well-funded health care systems, social safety nets, and financial resources needed to protect the most vulnerable against this crisis. In many places, large proportions of the population live in densely populated slums or crowded settlements for refugees and internally displaced persons, making these groups even more vulnerable to the pandemic.

In addition, the low price of oil hits low-income, oil- and gas-producing countries more than others. While rich producing countries are considering bailing out the oil and gas industries (including the United States and Canada), lower-income oil- and gas-producing countries such as Nigeria, Angola, Algeria, Ecuador, Venezuela, and Iraq do not have that option while being less resilient to oil price shocks. The crash in oil prices is exposing the equity challenges of managing a just transition off oil production. Many lower-income producers are facing immediate budget crunches due to the sudden crash in prices, which impacts their ability to address the pandemic. Iraq, which relies on oil for 90 percent of government revenue, is asking for emergency aid to fund its health system.[9] In Africa, falling oil revenues are stressing budgets in Algeria, Angola, the Congo Republic, and Nigeria.[10]

These developments reinforce the need for wealthier producers like the United States, Canada, and Norway to decline their production first, and to provide support to lower-income countries that face tougher transition challenges. Global cooperation is more critical than ever. As we move towards recovery, there will be an urgent need for leadership in setting global precedents on just recovery and international solidarity to support a managed phase-out of fossil fuel production. Wealthy producers must also support sustainable economic diversification as part of the construction of a truly resilient global economy.

2) Do create long-lasting, green jobs.

One of the main priorities for governments in this crisis should be to support people who have lost or risk losing their jobs, including in the oil and gas sector, and make the investments needed to ensure new long-lasting jobs are created. The number of oil and gas jobs was already declining globally before the current pandemic because of increased automation and competition from the renewable energy industry.[11] Compounded by the recent oil price collapse and the COVID-19 crisis, this year 1 million jobs are likely to be lost in oilfield services.[12] It would be a mistake for governments to try to revive a sunsetting industry as part of recovery measures. Instead, governments should ensure a just transition for workers who have lost their jobs through measures such as unemployment insurance, replacement of tax revenues, pension-bridging, early retirement schemes, worker transfer schemes, subsidised training, 4-day workweek incentives, and skills development opportunities. Simultaneously, they should stimulate the industries of the future, such as renewable energy, while ensuring that they provide long-standing and high-value jobs for local communities.

Investing in renewable energy and other green transition sectors is simply more effective for job creation than investing in fossil fuels. One report found that every dollar invested in renewable energy creates 70 percent more jobs than every dollar invested in fossil fuels.[13] Renewable energies typically have longer and more diverse supply chains and studies indicate that they create more jobs than the fossil fuel sector, which is highly automated. Over the last few years the number of renewable energy jobs worldwide has increased steadily. In 2018 the renewable energy sector employed 11 million people worldwide, up from 7 million people in 2012.[14]

The renewable energy and green infrastructure industry will also be hit by the current crisis. Bloomberg New Energy Finance forecasts that solar additions could be slashed by 8 percent globally in 2020 due to the COVID-19 outbreak's effect on supply chains.[15] It is therefore crucial that, next to increased support to public services including health and education (themselves critical for a low-carbon and resilient future), governments should also increase support to renewable and other green industries to protect jobs. In particular, governments should support energy efficiency, energy sufficiency, distributed renewable energy, connecting electricity systems, electrification of heating, transport, and other industries, battery storage, smart charging for electric vehicles, demand response,[16] and sustainable mass transit. Supporting energy efficiency as part of stimulus packages is particularly important as the current low oil price reduces the incentive for such investments, and in an economic depression, they can help reduce energy bills and address fuel poverty. The current crisis also shows the importance of local green jobs. Dependence on one country for the supply of renewable energy technology (or ventilators and masks for that matter) creates economic and social fragility that can only be solved by relocalizing production and shortening supply chains.

3) Do ensure Green New Deal frameworks provide the basis for stimulus packages.

Green New Deal proposals that were prepared prior to the arrival of COVID-19 provide regulatory and policy frameworks that can be used as a basis for designing stimulus packages. These frameworks will provide a workable alternative to business-as-usual support for incumbent industries and economic models. While at a minimum Green New Deal frameworks and other existing climate policy frameworks need to be protected, the need for additional stimulus provides an opportunity to expand their scope and scale, as well as accelerate climate objectives.

Explicitly linking stimulus packages to domestic green measures and Nationally Determined Contributions (and at the EU-level the National Energy and Climate Plans) can also help ensure directionality. This is essential for stimulus packages to have lasting impact and to achieve the dual objectives of economic recovery and climate mitigation. In response to the 2008 financial crisis, a number of countries and regions (e.g. South Korea, European Union, China, and the United Kingdom) included green measures in their fiscal stimulus packages. But because these countries failed to address their continued support of polluting industries, the green measures did not have a significant lasting impact.[17]

4) Do end fossil fuel subsidies and finance.

Cheap fossil fuels lead to oil and gas companies slashing investments and jobs. It also incentivizes their use and undermines the competitiveness of renewables. In the current context of low oil prices, it is crucial that governments take their long-standing commitments[18] to remove fossil fuel subsidies and align financial flows with the objectives of the Paris Agreement (Article 2.1(c)), and turn them into action. Ending fossil fuel finance would also require central banks to deploy their emergency facilities explicitly for green lending and investments and to exclude "brown" industry debt. In 2016, the European Central Bank and the Bank of England purchased assets as part of a quantitative easing strategy, but in this case the assets were high-carbon and subsidized companies like Shell and BP.[19]

In addition to ending public subsidies and finance for fossil fuel production, a carbon price can be a useful complementary tool if coupled with a strong redistributive safety net to avoid regressive impacts. A stand-alone carbon price in the absence of regulatory measures and just transition plans will not succeed. Any such carbon price must be high enough to drive meaningful change, be constructed with ecological integrity, and be designed to act in tandem with supply-side restrictions.

India, for example, has increased taxes on gasoline and diesel consumption by over 50 percent to fund its response to the COVID-19 crisis.[20] By contrast, Estonia approved EUR 125 million in subsidies to the state-owned energy company for the construction of a heavy fuel oil plant at the end of March. Such money could be put to much better use in the health sector and to support long-term solutions to the pandemic.[21]

Ending fossil fuel subsidies when oil prices are low makes sense because in the current context their removal will not significantly increase energy prices.[22] Removing fossil fuel subsidies and finance can also save significant government expenditure, which can be redirected to support more pressing policy goals. For example, in Nigeria, money spent on fossil fuel subsidies in 2019 would have been sufficient to pay for private enrollment in the national health insurance scheme for the entire population.[23] The broader support packages introduced in response to the COVID-19 crisis should ensure that households receive sufficient support (income, debt relief, etc.) so that they are not negatively affected by any increase in fossil fuel prices due to the introduction of carbon prices.

5) Do introduce oil and gas production caps as part of a managed decline.

Because of the unprecedented contraction in oil demand, the world is rapidly running out of oil storage capacity. As a result, oil prices are expected to remain low despite attempts by OPEC and the G20 to cut down supply. These developments have already led the Texas oil and gas regulator to propose a production cap, and the Government of Alberta to propose tightening an existing one.[24] The risks of allowing limitless production are high; not only are there massive costs involved in bringing oil and gas fields back online, the potential carbon emissions from the oil, gas, and coal in the world's currently operating fields and mines would fully exceed carbon budgets consistent with the Paris goals.[25] It is crucial to ensure these production caps are not lifted post-COVID-19 and are instead matched with plans for a managed decline.

6) Do ensure that decision-making and response measures introduced are transparent, respect human rights, and allow public scrutiny.

In countries across the world the COVID-19 crisis is affecting parliamentary oversight as governments are temporarily shut down or are switching to working online. Some countries, like Hungary, are using the Coronavirus to declare a national emergency and take sweeping new powers that kill democracy.[26] In China, Thailand, Cambodia, Venezuela, Bangladesh, and Turkey, governments are detaining journalists, opposition activists, healthcare workers, and others who criticize their response to COVID-19.[27] Some governments are intensifying digital surveillance. Some countries' healthcare systems are already being overloaded, forcing difficult triage decisions. Ultimately, there is a risk that the processes created to make these decisions could cut across the human rights of particularly vulnerable people and communities.

Other governments are rapidly developing new structures and systems to allow for transparency and democratic scrutiny of government decision-making, and implementing measures designed to protect people's human rights through this crisis. For example, New Zealand has created a new Parliamentary Select Committee, chaired by the Leader of the Opposition, to scrutinize government decisions and maintain transparency while their Parliament is unable to sit.[28]

At a time when governments are introducing measures of an unprecedented scale that will shape our societies for decades to come, it is essential that they do not exploit COVID-19 to grab power and violate human rights. It is essential that governments do not exploit COVID-19 to grab power and violate human rights. In addition, governments should continue to ensure that decision-making, including any decision-making linked to the oil and gas sector, is transparent, and that digital tools are used for public participation to enable scrutiny.

7) Do bring the fossil fuel industry into public ownership, if the circumstances are right, to ensure a just transition and managed phase-out of production.

In the right circumstances, acquiring public ownership of fossil fuel companies can be one of the most powerful and straightforward paths to ensure a just transition for workers and communities while phasing out production in line with climate imperatives.[29] By taking control of the industry, governments can exercise more direct control over labor and community protections to ensure a managed and fair phase-out than through regulation or carbon pricing. Government control allows for a just transition for fossil fuel workers (aided by the removal of dividends and high salaries for corporate executives), and prioritizes reclamation and revitalization for communities impacted by and dependent on extraction. It also makes any climate and clean economy policy much easier to advance by removing the built-in opposition of the fossil fuel industry in politics.

By taking an equity stake in the industry, the government can direct any remaining profits to ensure a just transition, and governments can eliminate exposure to potential investor state dispute settlements (ISDS) in response to environmental and climate regulation. Taking public ownership of the industry with strong principles for a just transition and decisive supply-side action is not a likely path for many governments in the context of the current recovery. But this crisis moment, with the realities of an unmanaged decline laid bare, provides an opportunity to radically shift the political imagination around what is possible. From a global equity standpoint, Global North countries like the United States and Canada have comparatively less economic dependence on fossil fuel production and higher capacity to fund a just transition.[30] They should seize the moment to bring the industry into public ownership for a managed phase-out.[31,32]

8) Do make any support provided conditional on a managed decline in line with climate goals.

Any support provided to the oil and gas industry or other polluting industries should be provided on the condition the support goes to workers, not shareholders and corporate executives. Shareholder dividends and buybacks should be disallowed until any public finance is paid back in full. Any support to the oil and gas sector should be used to fund a just and managed transition from oil and gas, in line with climate goals, that protects workers and communities. Government support to false climate solutions proposed by the fossil fuel industry, such as fossil-based hydrogen or carbon capture and storage, which are not compatible with a zero-carbon society and remain uncertain and costly technologies,[33] should not be included in green stimulus packages.

Support aimed at reviving the industry will fail to secure economic recovery whilst exacerbating the parallel climate crisis. Already, before COVID-19 and the recent oil price collapse, the oil and gas sector was showing signs of permanent decline, including increased job losses.[34] During eight of the last nine years, energy stocks underperformed the broader market, while renewable stocks outperformed the index by 20 percent in 2019.[35] Last year the energy sector placed dead last in the Standard & Poor's 500 index. In the 1980s, oil and gas companies represented seven of the top ten economically performing companies; today there are none.[36]

In case of any support to other polluting industries, such as shipping and aviation, this should be provided on the condition that the industry cuts air travel and invests in alternative zero-carbon modes for international travel (such as high-speed rail networks) in order to bring emissions down in line with climate goals.[37] Additionally, the aviation industry should start paying kerosene tax as well as imposing progressive levies on frequent flying, as called for in a letter to governments signed by more than 250 trade unions and environmental groups.[38]

9) Do ensure the polluter pays principle is upheld.

Increasingly over the course of the last few decades, the financial rewards of fossil fuel production have been privatized, funneling the revenue of companies and their returns to shareholders. At the same time, the risks have been socialized, making workers, communities, and taxpayers shoulder the burden of local health and environmental impacts, cleanup and decommissioning, stranded assets, and job precarity. In Alberta, the government and industry are already moving to offload more of the costs of well clean-up onto the public.[39] It is critical that the 'polluter pays' principle is upheld in this moment instead; policies and relief packages being designed right now must seek every opportunity to increase the share of rewards to the public and force companies to be accountable for the impacts of past and ongoing production.

Don't: Entrench Reliance on a Volatile Industry That Will Not Deliver on Recovery

1) Don't bail out oil and gas companies or increase subsidies.

Recovery plans will mainly start being put into place as the current health emergency is addressed. But corporate rescue schemes (bailouts) and new subsidies are already being devised, including for the oil and gas sector, such as in Canada, the United States, and Norway.[40] Both the United States and Canada have massive general corporate bailout packages that are poised to be heavily biased to oil and gas and hard to track, in addition to potential aid packages directly aimed at supporting fossil fuels.[41] The government of Alberta already announced a direct investment of CAD 1.5 billion and a further CAD 6 billion loan guarantee for the Keystone XL pipeline right after laying off 20,000 education workers. Considering the high social costs and poor market performance of the oil and gas sector, bailouts and subsidies to the industry will not deliver on economic recovery objectives, but they will exacerbate the parallel climate crisis.

2) Don't bail out other polluting industries or invest in fossil fuel-dependent infrastructure as part of recovery.

The aviation, shipping, and automotive industries are examples of other polluting industries hit by the COVID-19 crisis that are calling for bailouts or support. Some governments are planning to invest in fossil fuel-dependent infrastructure as part of recovery, including big road projects. The aviation sector is calling for taxpayers' support and the easing of already unambitious climate goals for 2020.[42] At the same time, the industry opposes calls to pay taxes in return for a bailout, and is threatening layoffs. While increasing profits over the past few years, the European aviation industry has long been exempt from fuel taxes and value-added tax on tickets, which costs the EU EUR 27 billion in tax income annually.[43]

Governments should prioritize sustainable infrastructure over building fossil fuel-dependent infrastructure in response to the current crisis. That way governments will be able to tackle today's parallel health, economic, and climate crises at the same time.

3) Don't roll back existing policies or regulations or extend licensing agreements.

In response to the COVID-19 crisis, fossil fuel lobbyists and other polluting industries have not only been caught calling for government support, but also for the rollback of climate and environmental regulations. In some cases, such calls also come from national governments. Poland, for example, has called on the EU to scrap the European Emission Trading Scheme,[44] and the prime minister of the Czech Republic has called on the EU to ditch the European Green Deal in the face of the COVID-19 crisis.[45] In the United States, the American Petroleum Institute managed to get the Environmental Protection Agency to suspend the enforcement of environmental and public health regulations indefinitely.[46] The Albertan government in Canada has likewise suspended environmental reporting requirements.[47] Some EU carmakers have called for the delay of the introduction of EU car CO_2 standards that are supposed to enter into force this year.[48] In the face of the COVID-19 crisis it is crucial that governments instead uphold environmental regulations to protect public health and provide the regulatory certainty needed for sustained investments in the clean and green industries that can deliver jobs and economic recovery.

4) Don't continue the construction of fossil fuel infrastructure at the expense of the health of workers and communities.

Instead of pursuing high-risk fossil fuel infrastructure, governments should pause construction on all fossil fuel projects due to the massive public health risks for workers and frontline communities. In Mozambique, for example, 18 out of 34 coronavirus cases confirmed as of 17 April are linked to a coronavirus outbreak at Total's LNG project site.[49]

5) Don't delay responses to the climate crisis amid the flurry of immediate priorities.

If anything, the current pandemic shows that a crisis demands a timely response to prevent it from escalating further. A task force assembled by the World Health Organization and the World Bank had already warned of the risk and potential consequences of a global pandemic, yet few countries were prepared for it.[50] We know that the climate crisis is here and that government responses to it are far from adequate. The time is now to ensure that any response to the current crisis accelerates climate objectives rather than pushes them further away. The COVID-19 crisis has shown that governments can act swiftly and on a large scale when necessary, and in the case of the climate crisis, swift and large-scale action is required as well.

This Is the Time to Build Resilience by Accelerating the Transition to a Green Future

Preventing a total crash of the oil market is a temporary fix to a structural problem. Governments need to look beyond the short-term pain of the oil crisis and towards a managed phase-out of oil and gas production in line with climate goals, while protecting and supporting workers and communities through the difficult transition. The only effective response to the current crisis is to accelerate the transition to a green and resilient future.

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This briefing was written by Laurie van der Burg with contributions from Hannah McKinnon, Romain Ioualalen, Bronwen Tucker, Alex Doukas, Collin Rees, Matt Maiorana, and David Tong. It was edited by Kaela Bamberger and Collin Rees. Design by Matt Maiorana. All are with Oil Change International.

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