

## **Letter from the Green Economy Coalition to G-20 Ministers of Finance**

**St. Andrews, Scotland**

**6-7 November 2009**

The Green Economy Coalition<sup>1</sup> applauds the G-20's Pittsburgh commitment last September to rationalize and phase out over the medium-term inefficient fossil-fuel subsidies that encourage wasteful consumption.

Most fossil fuel and conventional energy subsidies are not only a massive diversion of public funds badly needed for other purposes, they are a serious factor in artificially suppressing clean energy and energy efficiency alternatives. Hence they bring the world closer to irreversible and catastrophic climate change.

Unlike many other subsidies, those to fossil fuels are a world-wide problem. Whereas it is principally the developing world which grants low fuel prices to consumers, various more subtle subsidies are used to reduce the costs of producing and refining fossil fuels in all countries - developed and developing. To achieve the full benefits of subsidy reform, and to ensure that the burden is equitably shared, production subsidies should be explicitly included in G-20 members' reform packages.

As a start we strongly support the full termination of subsidies to the conventional energy sector in all Annex I countries.

Initial studies by the IEA, OECD and UNEP estimate the current annual fossil-fuel subsidy bill as hundreds of billions of dollars. It would be better spent on health, education, renewable energy or other actions that would accelerate the transition to a green economy. Equally important, elimination of fossil fuel subsidies would make a substantial contribution to stabilizing the world climate: initial estimates indicate that global carbon dioxide emissions would be reduced by 10%, the combined emissions from Russia and Japan. It is inconsistent for governments to finance carbon reduction policies whilst simultaneously increasing fossil fuel consumption through subsidies.

None of the challenges presented by fossil fuel subsidy reform are insurmountable. The G-20 has provided the first piece of the puzzle: political leadership and public commitment. Comprehensive information on the scale and impact of subsidies is also needed, notably in two areas: identifying and quantifying producer subsidies (consumer subsidies are better understood); and understanding what share of subsidies reach those who genuinely need support.

We must ensure that the benefits of subsidy reform are not secured at the expense of the poorest consumers and the poorest countries. But we believe that a majority of subsidies fail to reach those consumers for whom they were intended: instead they benefit the population more generally; or are captured in other parts of the fossil fuel supply chain. Subsidies are inequitable.

Where reducing subsidies to fossil fuels in developing countries is likely to result in sharply increased energy prices for the poor, subsidy reform will need to be accompanied by specific 'flanking' measures that relieve or compensate for that burden on the poor, while allowing the deployment of clean energy on a more economically-level playing field.

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<sup>1</sup> *The Green Economy Coalition was founded in March 2009 in Switzerland and consists of members from the environment, development, business, labour and consumer sectors. It is hosted by IIED, with support from UNEP, WWF International and IUCN. The Coalition has sent letters to the G-20 Summits in London, March 2009 and in Pittsburgh, September 2009. The removal of fossil-fuel subsidies is identified as one of a range of critical issues to be addressed in accelerating the transition to a just and green economy.*

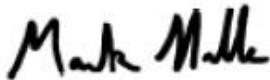
We call on the G-20 members to give priority to fossil fuel subsidy reform in the short-term by:

1. Agreeing on standardized and regular reporting on the fossil-fuel subsidies currently employed, making good on the G-20's promise of full disclosure;
2. Engaging the international community to provide rigorous and thorough research on the impact of existing subsidies, and the likely consequences of different options for subsidy reform on the economy, the environment and social welfare;
3. Developing implementation plans that outline clear timeframes for the reform process;
4. Drawing on the assistance of the international community to develop comprehensive and coherent reform packages that include extensive consultations with relevant stakeholders, comprehensive communication strategies, and the development of flanking measures to cushion the negative effects of reform on the poor; and
5. Establishing a peer review verification process, whether conducted within the G-20 or outside, to facilitate the reform process by tracking progress of the implementation plans against commitments.

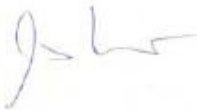
The membership of the Green Economy Coalition offers its full support to the G-20 and its membership in the development of their implementation plans and in translating these into action in the years ahead.



Ola Engelmark, Chair, Bellagio Forum for Sustainable Development, and CEO Mistra Foundation



Mark Halle, Executive Director, IISD-Europe



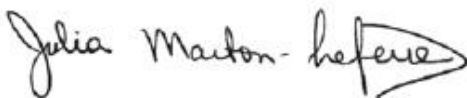
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