

POLICY *Brief*

Delivering on G-20 commitments: The path to fossil-fuel subsidy reform

RECOMMENDATIONS FOR THE G-20 SEOUL SUMMIT

WHAT HAS THE G-20 DONE SO FAR?

WHAT PATH SHOULD THE G-20 TAKE FORWARD?

Recommendations for the G-20 Seoul Summit, 11–12 November 2010

- Review progress reports against the national implementation plans for subsidy reform and make the reports publicly available.
- Consider options for a monitoring and review mechanism.
- Request a revision of the scope of the national implementation plans, with a report back to the Paris summit in 2011.
- Re-instate the officials' working group to share information and best practice both within the G-20 membership, and with other groups such as APEC.
- Continue to seek support and technical assistance from international organizations.
- Reaffirm the G-20's commitment to reforming fossil-fuel subsidies over the medium term, including raising it on the G-20's agendas for the following 12 months.

INTRODUCTION

Many countries have taken advantage of the current window of opportunity to announce plans to reform fossil-fuel subsidies: fiscal constraints resulting from the financial crisis, high and volatile energy prices, increasing energy security concerns, and the need to reduce greenhouse gas emissions while the UNFCCC process struggles are making subsidy reform a relatively easy sell. But this climate of subsidy reform may or may not continue. The leadership demonstrated by the G-20 in Pittsburgh and Toronto must be strengthened in Seoul to provide the necessary impetus and support for its national governments now facing the practical challenges of phasing out fossil-fuel subsidies.

Looking beyond its own membership, the G-20 has had wide-reaching influence in sparking action by other countries and organizations. APEC undertook an almost identical commitment in November 2009, extending fossil-fuel subsidy

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reform to an additional 12 countries, and proposing to advance research in its energy working group. In addition to this, a new set of countries have formed the “Friends of Fossil-Fuel Subsidy Reform” group, including Denmark, New Zealand, Norway, Sweden and Switzerland, which plans to put pressure on the G-20 to achieve a transparent and ambitious outcome.

The G-20 process has also prompted inter-governmental organizations to focus on the issue. After providing a joint report for G-20 leaders in Toronto, the IEA is now dedicating two chapters of the *World Energy Outlook 2010* to energy subsidies, the OECD is advancing work on methodologies for calculating fossil-fuel subsidies and the World Bank is undertaking research on the political economy and distributive effects of fossil-fuel subsidies.

WHAT HAS THE G-20 DONE SO FAR?

In September 2009, G-20 Leaders in Pittsburgh recognized that “inefficient fossil-fuel subsidies encourage wasteful consumption, distort markets, impede investment in clean energy sources and undermine efforts to deal with climate change” and committed to “rationalize and phase out over the medium term inefficient fossil-fuel subsidies that encourage wasteful consumption.”¹

They also acknowledged the challenges ahead, notably the need to prevent adverse impacts on the poorest by providing targeted cash transfers and other poverty-alleviation mechanisms.

At the Toronto summit held 26-27 June 2010, ministers provided a written submission to G-20 leaders, in which 13 countries outlined implementation strategies for phasing out selected fossil-fuel subsidies. The remaining seven countries (Australia, Brazil, France, Japan, Saudi Arabia, South Africa and the United Kingdom) concluded that they have no inefficient fossil-fuel subsidies.

In addition, the four inter-governmental organizations (IGO-4) submitted their report, *Analysis of the Scope of Energy Subsidies and Suggestions for the G-20 Initiative: IEA, OPEC, OECD, World Bank Joint Report*.²

G-20 Leaders acknowledged the two reports in paragraph 42 of their declaration, and added:

“We also encourage continued and full implementation of country-specific strategies and will continue to review progress towards this commitment at upcoming summits.”

Following the Toronto summit, the national implementation strategies³ and IGO-4 report have been made publicly available online.

¹ G-20 Leaders. *Leaders' statement: The Pittsburgh Summit*, Pittsburgh, PA, 24–25 September 2009.

² The report is available at: <http://www.oecd.org/dataoecd/55/5/45575666.pdf>

³ G-20 Submission. *Report to leaders on the G20 commitment to rationalize and phase out inefficient fossil fuel subsidies*. G-20 Toronto Summit, Canada, 26–27 June 2010. October 2010, <http://www.g20.org/Documents2010/expert/Report%20to%20Leaders_G20_Inefficient%20Fossil_Fuel_Subsidies.pdf> and G-20 Submission. *Annex: G20 Initiative on Rationalizing and Phasing Out Inefficient Fossil Fuel Subsidies, implementation strategies and timetables*. G-20 Toronto Summit, Canada, 26–27 June 2010. October 2010, <http://www.g20.org/Documents2010/expert/Annexes_of_Report_to_Leaders_G20_Inefficient_Fossil_Fuel_Subsidies.pdf>



WHAT PATH SHOULD THE G-20 TAKE FORWARD?

G-20 leaders have managed to keep the issue on the agenda for future summits and have increased the transparency of the process by making the relevant documents available online. There is a risk that the G-20 process could lose momentum: the officials' working group that was originally established to coordinate the national strategies has not been continued beyond the Toronto summit, and the IGOs have not been mandated with further work by the G-20. Implementation of subsidy reform will be a nationally-led initiative and although IGOs such as the OECD, IEA and World Bank plan to continue work in this area, it will be undertaken independently.

President Lee, as host of the next leaders' summit in Seoul, has emphasized that his number one priority is ensuring implementation of previous commitments.⁴ Also in Korea's top priority list for the summit is "inclusive outreach" to non-G-20 members and organizations. In this regard, the G-20 should be reaching out to those they have influenced—APEC, the "Friends" group and non-G-20 governments—to pursue a collaborative approach to fossil-fuel subsidy reform.

Given the influence that the G-20 has had in prompting other countries and organizations to join the fossil-fuel subsidy reform movement, the G-20's role should now be seen within the bigger picture and with a longer-term view to achieving ambitious and comprehensive reform, ultimately leading to a negotiated agreement. The GSI proposes a road map for reform of fossil-fuel subsidies, summarized in the Figure⁵ below:



⁴ Ambassador and Deputy Minister (Foreign Affairs and Trade) Ho-Young Ahn gave a briefing on the agenda for the Seoul summit to international organizations at the International Labour Organisation, Geneva, on 7 September 2010.

⁵ For full details see: K. Lang, P. Wooders and K. Kulovesi. (n.d.) *Increasing the momentum of fossil-fuel subsidy reform: A roadmap for international cooperation*. (Winnipeg, MB: International Institute for Sustainable Development). October 2010: <<http://www.globalsubsidies.org/en/research/international-cooperation-reform>>.

WHAT PATH SHOULD THE G-20 TAKE FORWARD?

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Next 12 months: The G-20's continued leadership, including the Seoul and Paris Summits, over the next 12 months remain essential. Those members that submitted national implementation plans should provide progress reports at the Seoul summit, and continue to report to future summits. These progress reports should be made publicly available. The G-20 should consider more formal options for monitoring progress against the commitment by: including a peer review process for the progress reports submitted to leaders; improving the reporting of subsidies within the World Trade Organization; or establishing a secretariat (in either an existing or new organization) to share information and reports. The G-20 should also regularly revise the scope of their national implementation strategies. Re-establishing the official working group would assist with sharing of information within the G-20 membership and with other forums such as APEC. The "Friends" group plans to maintain pressure on the G-20 to achieve a transparent and ambitious outcome.

1–3 years: The G-20 should continue to encourage other countries to reform harmful subsidies, perhaps even offering to share information and best practice from G-20 members' experience of subsidy reform. In addition, the G-20 could delegate more formal secretariat functions to organizations, for example to monitor and review subsidy phase-out, convene workshops and conferences, and to disseminate information and best practice. The G-20 could start raising the topic for discussion in other forums. In the next 1 to 3, years a relatively small group of champions will be necessary to prepare the ground for future negotiations on an agreement within the WTO and/or UNFCCC.

Longer term: The ideal end point would see a negotiated agreement, housed in a single institution (noting that secretariat functions could be provided externally). The G-20 has shown that political leadership necessary to start building a consensus may come from smaller groups of countries in the future.

FURTHER DETAILS AND CONTACT INFORMATION

The GSI is an initiative of the International Institute for Sustainable Development (IISD). Established in 1990, the IISD is a Canadian-based not-for-profit organization with a diverse team of more than 150 people located in more than 30 countries. The GSI is headquartered in Geneva, Switzerland and works with partners located around the world. Its principal funders have included the governments of Denmark, the Netherlands, New Zealand, Norway, Sweden and the United Kingdom. The William and Flora Hewlett Foundation have also contributed to funding GSI research and communications activities.

See the GSI's *Subsidy Primer* for a plain-language guide to subsidies on: www.globalsubsidies.org.

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