



COP 18 Side Event: Fossil-Fuel Subsidy Reform—Best practice and international governance opportunities

Presented by the Friends of Fossil-Fuel Subsidy Reform

December 4, 2012, Doha

Hon. Martin Lidegaard, Minister of Climate, Energy and Buildings, Denmark

Lidegaard introduced the event, highlighting that globally, governments subsidize fossil-fuel production and consumption by more than US\$600 billion each year. Subsidies for fossil-fuel consumption in developing countries were estimated by the International Energy Agency (IEA) to be \$523 billion in 2011, and global producer subsidies are estimated to be more than \$100 billion per year. Lidegaard noted that some governments spend more on fossil-fuel subsidies than they do on health and education combined.

Although fossil-fuel subsidies are assumed to be socially beneficial and facilitate economic growth, they have environmental, social and economic consequences. Notably, within the context of the climate change talks, fossil-fuel subsidy reform has the potential to reduce greenhouse gas emissions by up to 10 per cent by 2050, compared to business as usual. Reforming subsidies would facilitate innovation and energy efficiency.

Lidegaard outlined three key steps required to progress reform: (1) engagement of key political players, (2) innovative regulatory models designed to address the needs of vulnerable groups, and (3) engagement of civil society in the reform process.

The Minister identified that the purpose of the event was to discuss specific examples of how to progress reform by engaging the international community and overcoming political and social challenges.

Panel 1: The engagement of political actors: How can fossil-fuel subsidy reform be progressed most effectively in the international community?

Hon. Tim Groser, Minister of Climate Change and Minister of Trade, New Zealand (moderator)

Groser emphasized that fossil-fuel subsidy reform is the missing piece of the climate change puzzle. He highlighted the participation of a number of countries in the Friends of Fossil-Fuel Subsidy Reform group, including Costa Rica, Denmark, Ethiopia, Finland, New Zealand, Norway, Sweden and Switzerland. New Zealand helped pull this “ginger” group together to support countries to reform subsidies. Groser stated that this group does not want to “push extremism” on the issue; rather, it aims to provide direction, encouragement and incentives for reform.



Ambassador Maria del Socorro Flores Liera, Special Advisor for Climate Change, Foreign Ministry of Mexico

The Ambassador commented that we all know how important fossil-fuel subsidy reform is and the benefits to be gained, but that many challenges still face reformers. She spoke to the G-20's commitment to reform inefficient fossil-fuel subsidies in 2009 and noted that progress is being made through ongoing discussions in the working groups. Notably, at the last G-20 Finance Ministers' meeting held in November 2012, Ministers agreed to develop a process for peer reviewing other G-20 members' reporting of subsidies. There are several proposals for a peer review mechanism currently being considered by the group.

The Ambassador also discussed Mexico's experience with fossil-fuel subsidy reform, noting that it is first important to understand why governments subsidize fossil fuels—for example, to reduce energy poverty or to support economic activity. Consumption subsidies tend to be regressive and this has been the case in Mexico, where the richest 10 per cent of the population receive 20 times more of the benefits than do the poor. However, the public does not necessarily understand the economic, social or environmental impacts of subsidies. Governments need to engage with civil society and create awareness about the impacts of subsidies and convince the public that subsidies are a poor social policy. Governments need to develop better compensation mechanisms and find alternatives for meeting their objectives.

Ariane Labat, DG Climate Action, European Commission

Labat stressed that the European Commission is very interested in fossil-fuel subsidy reform and how to advance it. She noted that the Friends group is an important initiative that can help to move forward the international reform agenda. Based on the European Union's experience of reforming its State Aid regulations, which has required adjustment of social policies (particularly for miners), countries need to adopt a long-term commitment to achieve subsidy reform.

With the new analysis on fossil-fuel subsidies from the IEA and the Organisation for Economic Co-operation and Development (OECD), the European Commission is trying to ramp up its reform process. It has a number of initiatives underway including economic surveys for EU members to identify structural reforms that can lead to green growth, with benefits such as emissions reductions and more green jobs. There is also a Ministerial-level discussion on tax reforms looking to increase taxes for goods and services with high carbon content and, in turn, to reduce employment taxes.

Jehan Sauvage, Trade Policy Analyst, OECD

Sauvage stressed the importance of transparency as the first step in the reform process. Reform should start with a review of all subsidies in place, including their costs, so that each can then be assessed on its merit. However, until recently, there have been huge gaps in the data available on subsidies. The IEA produces annual subsidy estimates for fossil-fuel consumption but these estimates don't cover OECD countries, producer subsidies, and some forms of consumer subsidies such as tax relief. He also noted that there has been no systematic effort undertaken within the last decade to estimate subsidies to fossil-fuel production over a wide range of countries.



The OECD has developed an inventory of all budgetary transfers and tax expenditures for fossil fuels in its 34 member countries, including at the sub-national level in the case of federations like Canada or the United States. The overall value of these support measures was in the range of US\$55-90 billion per annum over the 2005-2011 period. Crude oil and its derivative products are, by far, the most heavily subsidized fuels, with consumer support accounting for a large percentage of total support.

Sauvage stressed that the OECD does not pass judgment on whether these support measures are “good” or “bad” policies. The OECD has not yet undertaken an analysis of the impacts of support measures or assessed whether they are economically efficient or environmentally harmful. This first step of data collection provides, however, a useful focal point for future discussion of energy policies in an international context.

Issues raised during the discussion:

The panellists had discussed the importance of protecting low-income groups and the need to undertake political economy analysis, but one participant questioned how governments can support small- and medium-sized enterprises during reform. Ambassador Socorro noted that part of Mexico’s approach to protecting vulnerable groups is to gradually phase out subsidies. Minister Lidegaard suggested increasing efforts to scale-up energy efficiency in parallel to subsidy reform.

Oil Change International thanked the Friends group for their leadership in raising fossil-fuel subsidy reform within the climate change talks. OCI had recently published an infographic¹ comparing the OECD subsidy estimates to climate finance pledges and found that fossil-fuel subsidies are, on average, five times greater than pledges toward climate finance, although it was noted that this comparison is symbolic only, as the actual mechanics of reallocating subsidy expenditure to other purposes are complicated. Given the need to initiate action to achieve the pre-2020 mitigation ambition being discussed in the COP, what is the vision of the Friends group for ramping up efforts on this issue? Minister Groser responded that the Friends group is still raising political understanding and building consensus, which is a gradual and slow process. Groser’s personal view is that the fossil-fuel subsidy reform agenda will never evolve into a classic WTO-style negotiation. The vision is to move beyond voluntary reporting to concerted unilateral efforts to reform, backed up by technical capacity building. Ambassador Socorro agreed that it is first important to generate awareness and build consensus. Minister Lidegaard added that the Friends group is looking to add more countries to its membership and that Denmark is integrating fossil-fuel subsidy reform into its development programs.

Another participant noted that energy access is a big issue in countries like India, where fossil-fuel subsidies are locked into the country’s development model. The challenge is undertaking mass communications campaigns to educate the public on the negative impacts of subsidies.

¹ For more information, see <http://priceofoil.org/2012/12/03/new-analysis-fossil-fuel-subsidies-five-times-greater-than-climate-finance/>



Panel 2: Accelerating concrete initiatives: How can countries overcome the political and social barriers to fossil-fuel subsidy reform?

Moderated by Hon. Martin Lidegaard, Minister of Climate, Energy and Buildings, Denmark

Kerryn Lang, Global Subsidies Initiative, International Institute for Sustainable Development

Lang presented an overview of a new IISD guidebook collating international best practices on fossil-fuel subsidy reform, which addresses getting energy prices right, managing the impacts of policy reform, and building support for reform. Noting that the political economy issues are the biggest challenges to reform, she stressed the importance of building support from stakeholders and the general public as a critical element of any reform plan.

The IISD's guidebook outlines seven steps for building such support: (1) identify key stakeholders, (2) undertake impact assessments and mapping exercises to understand *how* each group will be affected, (3) identify desired changes in behaviour or attitudes, (4) establish mechanisms for consultation, (5) tailor messaging to target audiences, (6) identify channels of communication, and (7) monitor and adjust the communications strategy to take account of shifts in public sentiment and political dynamics.

She also stressed the need to engage and inform civil society actors. Improving transparency is key—governments need to not only communicate about the reform strategy, but also improve information available about energy pricing and subsidy expenditure.

Governments should be looking to engage civil society not only to address the concerns of those in opposition to reform, but to mobilize the support of a wide range of civil society groups in favour of reform. For example, academics can undertake research and publish independent opinion pieces on key issues; consumer networks can help disseminate information at the grassroots level; climate or environmental campaigners can include messaging on fossil-fuel subsidies in their campaigns, if given the resources and training.

Rob Bradley, Ministry of Foreign Affairs, United Arab Emirates

Bradley discussed the UAE's experience with fossil-fuel subsidy reform, noting that the UAE has done more in the last three years to reform subsidies than any other country (except Iran). Gasoline prices have increased by 70 per cent, and six out of seven Emirates now have complete cost-recovery in utility pricing (Abu Dhabi is the exception). The main driver for reform has been economic diversification. Bradley noted that the lost opportunity cost of selling oil on the open market is not an important driver reform in the UAE. The main challenge has been meeting peak energy demand in the summer when energy costs soar. Other challenges for reform include putting in place the institutional and infrastructure capacity to deliver support measures or alternatives, and building the public's trust that the government will redirect subsidy savings to better use.

The UAE has become increasingly engaged in international discussions—it took part in the G-20 meetings in 2011, when the UAE was chairing the Gulf Cooperation Council, and has engaged in discussions with international organizations like IISD. However, it still takes a very cautious approach to international commitments. Many of the international discussions take an overly simplistic approach. For instance, in Rio there was a common claim



made that \$600 billion of fossil-fuel subsidies should be removed and redirected toward renewable energies, but this is not realistic. In Rio, developing countries were also worried about singling out fossil-fuel subsidies while not addressing other harmful subsidies like agriculture subsidies.

Hon. Rene Castro, Minister of Environment, Costa Rica

Castro shared Costa Rica's experience with fossil-fuel subsidy reform, highlighting its success in cutting subsidies for electricity and transport fuels. This has enabled Costa Rica to increase electricity generated by renewables to 93 per cent.

Costa Rica does still have targeted fuel subsidies for fishermen worth \$100 million over the last five years. These subsidies have negative environmental impacts, as cheap fuel enables fishermen to travel further and results in illegal fishing. However, the subsidies are not easy to reform because fishermen are an extremely poor and vulnerable group, surviving on a day-to-day income. They also have their own congressmen to protect their interests. Costa Rica has made progress in tackling the environmental impacts by banning extreme practices like shark finning and marlin fishing. However, continuing to enable these practices through subsidized fuel only results in increased costs for monitoring and enforcing the new bans. It would be much more efficient to cut subsidies. Reform will require a major cultural transformation to change fishermen's behaviour, to retrain them and provide them with better navigation facilities and other alternatives.

Issues raised during the discussion:

A number of participants raised questions about the UAE's rationale for reform, including one participant who noted that economic diversification is a valid point but queried how viable it is if economic activities are based on cheap and inefficient electricity consumption. Bradley reiterated that there are a number of drivers for the UAE, but lost opportunity cost is not one of them. For example, building a steel plant and creating jobs is much more valuable than selling a barrel of oil for an extra \$100 on the market. However, that has to be balanced with macro-economic drivers of reform, such as keeping government costs down. Bradley noted that the UAE aspires to be environmentally and economically efficient. The government sees itself as custodians of the country's wealth and responsible for finding more economically efficient ways of redistributing that wealth.



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IISD's vision is better living for all—sustainably; its mission is to champion innovation, enabling societies to live sustainably. IISD is registered as a charitable organization in Canada and has 501(c)(3) status in the United States. IISD receives core operating support from the Government of Canada, provided through the Canadian International Development Agency (CIDA), the International Development Research Centre (IDRC), and from the Province of Manitoba. The Institute receives project funding from numerous governments inside and outside Canada, United Nations agencies, foundations and the private sector.

About GSI

GSI is an initiative of the International Institute for Sustainable Development (IISD). GSI puts a spotlight on subsidies—transfers of public money to private interests—and how they impact efforts to put the world economy on a path toward sustainable development. In cooperation with a growing international network of research and media partners, GSI seeks to lay bare just what good or harm public subsidies are doing; to encourage public debate and awareness of the options that are available for reform; and to provide policy-makers with the tools they need to secure sustainable outcomes for our societies and our planet.

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