

Phase out fossil-fuel subsidies

Fossil-fuel subsidies cost the global economy an estimated US\$500 billion annually. But these heavy subsidies serve to discourage energy efficiency and defer investment in clean-energy systems. If governments were to stop subsidizing fossil fuels, global greenhouse gas emissions could be cut by as much as 10% by 2050.

World leaders have already taken the first tentative steps in this direction. At present, there is a unique set of circumstances that can facilitate subsidy reform. The current economic crisis, high and volatile energy prices, increasing concern over energy security, and continuing pressure to reduce greenhouse gas emissions all combine to make subsidy reform a relatively easy sell.

The United States decided to include fossil-fuel subsidy reform on the agenda when it hosted the Group of Twenty (G-20) summit in Pittsburgh in September 2009. The result was a commitment from leaders to 'rationalize and phase out over the medium term inefficient fossil-fuel subsidies that encourage wasteful consumption'.

Evidence of a growing determination to reform subsidies on fossil fuels carried over to the following G-20 summit in Toronto in June, 2010. Thirteen of the 20 members – including the United States, India, Indonesia and Mexico – submitted strategies and timetables for phasing out selected subsidies. The seven members that did not submit plans were Australia, Saudi Arabia, France, the United Kingdom, Japan, Brazil and South Africa.

The effects of the G-20 pledge have reached out beyond membership of the group itself. The Asia-Pacific Economic Cooperation (APEC) forum undertook an almost identical commitment in November 2009, extending fossil-fuel subsidy reform to an additional 12 countries. Seven months later, a further group of countries, led by New Zealand and including Denmark, Norway, Sweden and Switzerland, formed the Friends of Fossil-Fuel Subsidy Reform group. Such escalating commitment will put pressure on the G-20 to strive for an ambitious outcome as it starts to implement fossil-fuel subsidy reform – and will have the effect of ensuring that their reform efforts are transparent.

The G-20's continued leadership remains essential. President Lee Myung-bak of South Korea, as host of the next leaders' summit in Seoul in November 2010, has emphasized that his number one priority is to ensure the implementation of previous commitments. Another of South Korea's top priorities is a policy of 'inclusive outreach' to non-G-20 members and organizations.

To fulfil this priority, the G-20 should be reaching out to those they have already influenced – APEC, the group of 'Friends' and non-G-20 governments – in order to pursue a collaborative approach to reform. Much can be gained from working through the political and practical challenges of subsidy reform together.

The longer-term goal will be to prepare the path for a negotiated multilateral agreement on fossil-fuel subsidies. The

experience of the past two years has shown that the political impetus necessary to build consensus may come from smaller groups of countries in the future. To this end, the G-20 and others who seek reform could start raising the topic for discussion in other forums, such as the United Nations Framework Convention on Climate Change (UNFCCC).

There is enormous potential for addressing climate change. Countries should be exploring options for including fossil-fuel subsidy reform as part of their strategy in the run-up to the UNFCCC's 16th Conference of the Parties (COP 16) in Cancun, Mexico, in November and December 2010. Developing countries could explore how to include fossil-fuel subsidy reform within their Nationally Appropriate Mitigation Actions (NAMAs).


In the light of this, the International Institute for Sustainable Development's Global Studies Initiative has identified four issues that require further analysis:

- The provision of technical and financial assistance to developing countries to include subsidy reform as a NAMA
- The provision of assistance to finance the flanking measures that are required to protect poor and vulnerable groups from any negative fallout from subsidy reform
- The issuing of credits for reductions in greenhouse gas emissions that result from subsidy reform
- The possibility of negotiating a unilateral commitment on fossil-fuel subsidy reform

The G-20 and 'Friends' group could champion these topics with a non-paper or side events to get subsidy reform onto the UNFCCC's agenda.

The benefits of phasing out fossil-fuel subsidies are clear. A huge burden can be lifted from the budgets of developing countries, freeing up spending for more effective poverty alleviation measures. At the same time, local pollution levels will decrease, energy efficiency can be incentivized and greenhouse gas emissions will be reduced.

For the developed world, eliminating subsidies provides an opportunity to remove a major stumbling block on the path to a low-carbon, clean energy future. ■

 A longer version of this article can be found at www.thebrokeronline.eu

Mark Halle is director of trade and investment at the International Institute for Sustainable Development (IISD) in Geneva, Switzerland. He is also the founder and former Chairman of the Board of the International Centre for Trade and Sustainable Development.