

Fossil Fuel Subsidy Reform and the Communiqué

The Fossil Fuel Subsidy Reform Communiqué

- On 17 April 2015, the Friends of Fossil Fuel Subsidy Reform, together with France and the United States, launched a communiqué calling on the international community to increase efforts to phase out subsidies to fossil fuels in light of a global effort to reach an agreement at the United Nations Framework Convention on Climate Change (UNFCCC) conference of the Parties (COP 21) in Paris in December. The communiqué is now open for endorsement.
- By supporting the communiqué, countries and other actors recognize fossil fuel subsidy reform (FFSR) as an important climate-change mitigation policy with clear economic, social and environmental co-benefits.
- The communiqué encourages the international community to advance reform through three interrelated principles: increased transparency around fossil fuel subsidies, greater ambition in the scope of reform and the provision of targeted support for the poorest.
- The communiqué Annex provides a high-level platform for countries to showcase where and how they are making progress on FFSR domestically, or where they are co-operating internationally to support reforms.
- The communiqué will be presented at COP 21 in Paris, in December 2015, to support efforts to reach a new global climate agreement. By endorsing the communiqué, countries will gain an important opportunity to publicly support FFSR as part of their national trajectory towards a more sustainable and low-carbon economy.
- The communiqué is a political, non-legally binding statement.
- Process: Formal confirmations of support for the communiqué should be conveyed through government channels (i.e., with a member of the Friends of FFSR). Supporters of the communiqué will be listed on the Friends of FFSR website. If your country wishes to list your contribution to FFSR in

the communiqué Annex, please submit your text or quote to the International Institute for Sustainable Development, who are compiling the Annex on behalf of the Friends group (contact Lasse Christensen: ltchristensen@iisd.org).

- The communiqué can be found via this link: <http://www.fffsr.com>.

The Friends of Fossil Fuel Subsidy Reform

- Set up in June 2010, Friends of Fossil Fuel Subsidy Reform (the “Friends”) is an informal group of non-G20 countries aiming to build political consensus on the importance of fossil fuel subsidy reform. Current members of the Friends group are Costa Rica, Denmark, Ethiopia, Finland, New Zealand, Norway, Sweden and Switzerland.
- The Friends work internationally within forums such as the G20, Asia-Pacific Economic Cooperation (APEC), Organisation for Economic Co-operation and Development (OECD), UNFCCC and the United Nations Sustainable Development Agenda to promote the benefits of reform, and to provide information and tools to facilitate reform.
- In promoting FFSR, the Friends recognize the political, social and economic challenges related to subsidy reform, and that reform is going to be a long-term, progressive process. The Friends also recognize the importance of taking into account vulnerable groups and their developmental needs.
- The Friends have a proven track record of organizing timely seminars to promote reform and to share country experiences and best practices in implementing energy reform. Across these events, the Friends have involved high-level speakers from countries such as Mexico, Indonesia, Ethiopia, Costa Rica, Egypt, Honduras, Ukraine, Jordan and Angola, as well as international organizations such as the Asian Development Bank, World Bank, APEC, the OECD, International Energy Agency (IEA), International Monetary Fund (IMF) and the Global Subsidies Initiative.

The Issue of Fossil Fuel Subsidy Reform

Economic

- The scale of subsidies for fossil fuels is massive. The IEA estimates that consumer subsidies alone amount to USD 548 billion annually (2013). This is equivalent to four times the level of official development assistance aid from OECD countries in 2013 (USD 134 billion) or more than four times the level of total financial support to renewable energy (USD 121 billion).
- Subsidies to producers of fossil fuels also exist through tax breaks and other incentives. These have been estimated to stand at around USD 100 billion globally.
- In some countries, fossil fuel subsidies take up a significant proportion of government resources (consumer subsidies represent 5–30 per cent of government spending in some Southeast Asian countries). Some countries even spend more on fossil fuel subsidies than they do on health or education. Removing subsidies would lead to substantial fiscal savings and free up resources for governments to invest in areas such as health, education or climate finance.
- By keeping prices to consumers artificially low, fossil fuel subsidies encourage wasteful consumption, disadvantage renewable energy and drain scarce public resources that could be better spent on other sustainable developments goals.

Environment

- FFSR is the missing piece of the climate change puzzle. The elimination of fossil fuel subsidies would make a significant contribution to the goal of keeping average temperatures from rising more than two degrees Celsius above pre-industrial levels.
- In fact, studies show that the phase-out of fossil fuel subsidies is a viable option for the mitigation of greenhouse gas emissions, suggesting an associated decrease in emissions of between 6 and 13 per cent by 2050,¹ and that, by removing fossil fuel subsidies and then taxing fossil fuels correctly (based on the cost borne to society through air pollution, carbon emissions and accidents), could lead to a global decline in carbon emissions by 23 per cent.²

Social

- Subsidies are often socially regressive and tend to disproportionately benefit wealthier consumers. In 2010, 92 per cent of fossil fuel consumption subsidies were picked up by the top four quintiles of society, contrary to often-stated subsidy policy objectives.³ Reducing fossil fuel subsidies would free up resources for better-targeted social spending.

¹ Merrill, L., Harris, M., Casier, L., & Bassi, A.M. (2014). *Fossil fuel subsidies and climate change: Options for policy makers within their Intended Nationally Determined Contributions*. Retrieved from <http://norden.diva-portal.org/smash/get/diva2:786861/FULLTEXT02.pdf>

² IMF (2014). *Getting energy prices right: From principle to practice*. Retrieved from [http://www.elibrary.imf.org/view/IMF071/21171-9781484388570/21171-9781484388570.xml?rskey=kHyJS5&result=1&highlight=true](http://www.elibrary.imf.org/view/IMF071/21171-9781484388570/21171-9781484388570/21171-9781484388570.xml?rskey=kHyJS5&result=1&highlight=true)

³ Arze DelGranado, J., Coady, C., & Gillingham, R., (2010). *The unequal benefits of fuel subsidies: A review of evidence for developing countries*. Paris: IMF. Retrieved from <http://www.imf.org/external/pubs/ft/wp/2010/wp10202.pdf>

FFFSR

Friends of Fossil Fuel Subsidy Reform