



Fossil Fuel Subsidy Reform and the Just Transition

Ivetta Gerasimchuk & Phil Gass

28 August 2018

The Cost of Just Transition



- **Estimates vary:**
 - USD 600 million for US fossil fuel production for supports for workers alone
 - EUR 11.6 billion for Netherlands coal phase out, EUR 300,000-400,000 per long-term job created

The Implications of FFSR

- **FFS total at least USD 425 billion per year**
 - At a time of austerity in many regions, the budgetary space required for investments in worker supports, education, health and social programming can place pressure on public budgets and strain the political economy and public support for just transition if the financing is not in place to achieve the desired objectives.

FFSR and the Just Transition

A series of case studies on interactions between FFSR and JT, both good and bad (Morocco, Mexico, Argentina, Indonesia, The Netherlands)

What we found:

- While not intentionally following JT principles, several ‘good cases’ were implicitly focused on JT ideas
- FFSR is not only beneficial to JT, it is critical
- Engagement and communication is critical to success
- FFSR is important for consumption and production
- FFSR can be a key funder of transition

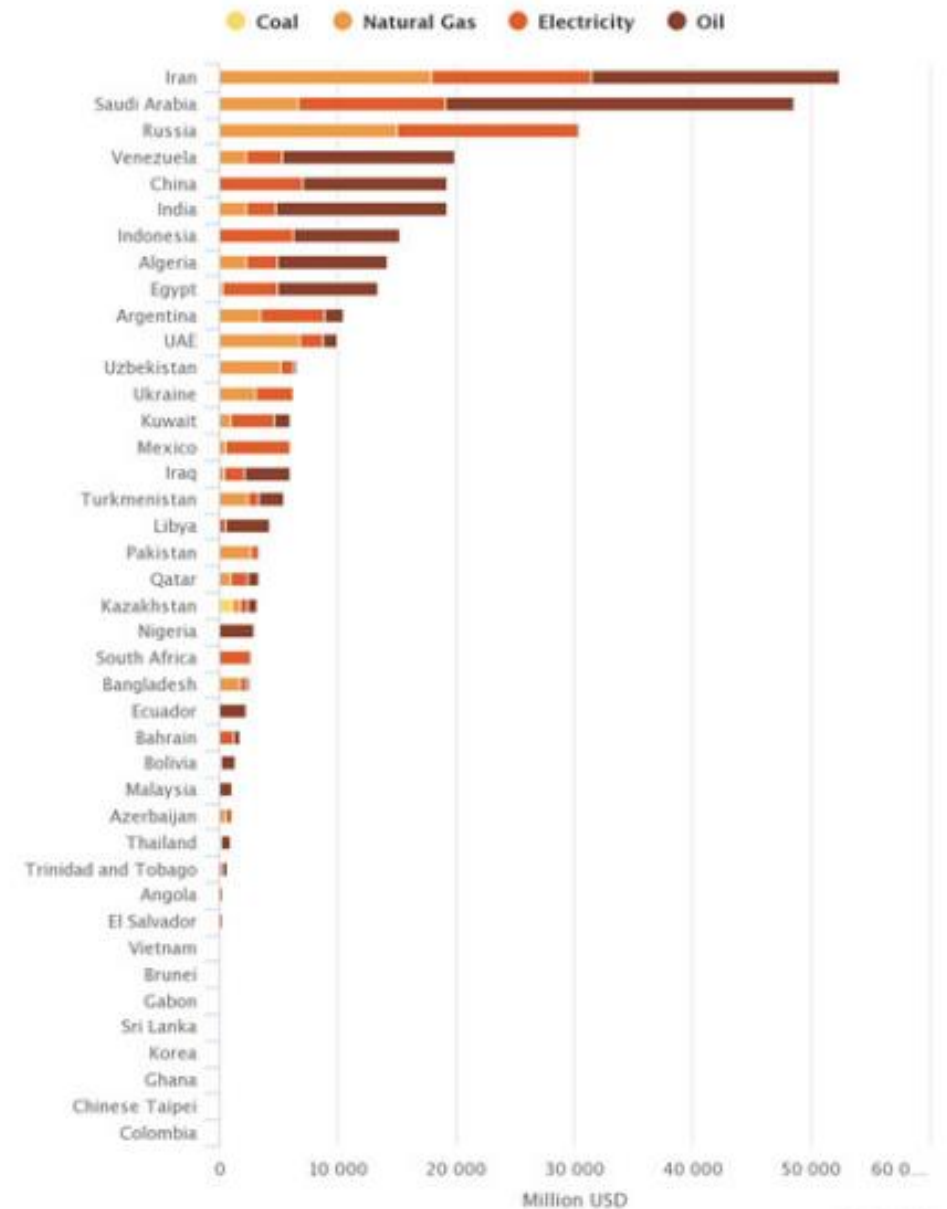


Figure 1. Fossil fuel subsidies by country, 2015

Source: IEA, 2016

Morocco – Phase out in tandem with clean energy



- **Major subsidy reforms for electricity since 2011.**
 - At one point the electricity subsidy was 154 percent of sale price
 - In 2012 fuel subsidies amounted to 6.6 percent of GDP
- **By 2015 subsidies to gasoline and industrial fuel eliminated, saving over USD \$4 billion, couples with electricity reforms**
 - Created budgetary space for renewable energy, notably solar power

Table 2. Jobs created by 2020 in the renewable energy and energy-efficiency sectors

Sectors	Job Creation	%
Renewable energies	13,300	↑ 26.55%
CSP	6,100	↑ 45.86%
Solar photovoltaics	4,700	↑ 35.34%
Biomass	1,300	↑ 9.77%
Wind	1,100	↑ 8.27%
Micro-hydro	100	↑ 8.27%
Energy efficiency	36,800	↑ 73.45%

Source: MASEN (2013) in Garcia et al., 2016

Transport fuel reforms in Indonesia

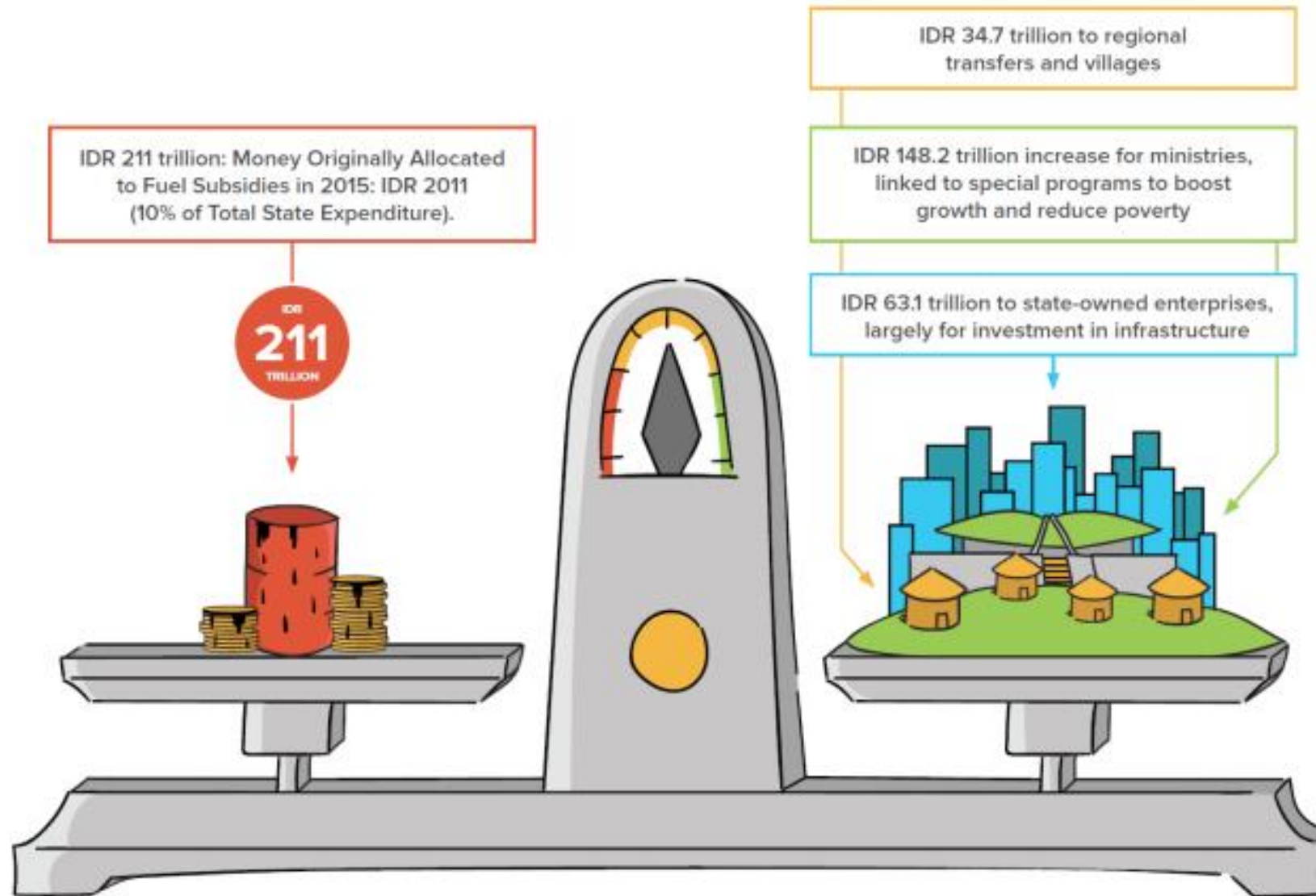


Figure 5. Reallocations in Indonesia state budget 2015 post-FFSR

Source: Pradiptyo et al., 2016

Netherlands coal transition supported by targeted FFS

- Seeing a decline in economic of coal production plan was put forward in 1965 to outline closure of several domestic mines.
- Less a case of FFSSR, more about targeted use of FFS to support long-term transition.
 - Government committed short-term support for coal production at mines to avoid unmanaged decline while transition occurred. Direct supports for coal prices and production were phased out while supports for transitioning the sector took up a greater portion of funds over time.
 - Long-term employment goals in mind as prices were supported in the short term.



Figure 6. Map of the Netherlands with Limburg and former coal mining area indicated

Support for workers in FF Industries in Canada



Together with OCI, IISD hosted a dialogue in May 2018 to highlight the need for a Just Transition plan in Canada.

There is growing alignment around the need for an active government role in addressing fossil fuel production. We expect this to be a theme of increasing importance and profile in many countries

Engaging with Labour is critical to legitimacy. Labour supports just transition (including FFSR) but is wary of environmental organizations (spending FFSR savings on climate without concern for workers) as well as a risk for Just Transition funding to go to companies instead of workers.



DISCUSSION PAPER

A Dialogue on a Just and Managed Transition to a Paris-Aligned Low-Carbon Future

International Institute for Sustainable Development
Oil Change International
August 2018

Introduction

In Paris in 2015, the world agreed to limit global warming to well below 2°C and aspired to keeping it to 1.5°C. Canada was a champion of this ambitious outcome and now faces the task of both meeting existing targets and increasing ambition.

As a wealthy, major fossil fuel producer, Canada has the opportunity to be among the leaders in charting a pathway away from fossil fuel production toward a low-carbon future.

Movement to end the expansion of oil, gas and coal production is quickly becoming a hallmark of climate leadership (see the next section on “Background”), as are calls to begin a managed phase-out and just transition in line with the Paris goals. Canada has taken important steps with its Just Transition Task Force and the phase-out of coal, but this work should inform a near-term parallel process for oil and gas.¹

A dialogue to define how to manage this transition such that it protects workers, communities, economies and the climate is a critical one that can only benefit from starting sooner rather than later. To this end, the International Institute for Sustainable Development (IISD) and Oil Change International (OCI) hosted a Chatham House

¹The importance of prioritizing a just transition was recently reaffirmed at the June G7 Leader’s Summit; see: <http://sdg.iisd.org/news/its-countries-and-eu-reaffirm-strong-commitment-to-paris-agreement-carbon-neutrality-at-g7-summit/>

Rule round table discussion on the topic in May 2018. This discussion paper highlights key outcomes from this round table for the purposes of informing continuing conversation.

While this is notably a challenging issue in the Canadian context, constructive discussions are both urgently needed and possible. The round table, which included broad participation from various stakeholders, was successful in this regard. In this discussion brief, we highlight key points, areas of convergence, and discussion on three topics addressed at the round table: 1) what is a pathway for Canada toward a zero-carbon economy? 2) the role and necessity of fossil-fuel-related fiscal policies (e.g., fossil fuel subsidy reform, carbon revenue, royalties, sovereign funds) in enabling a just transition in Canada, and 3) concrete measures for a just transition: clean energy, jobs, innovation.

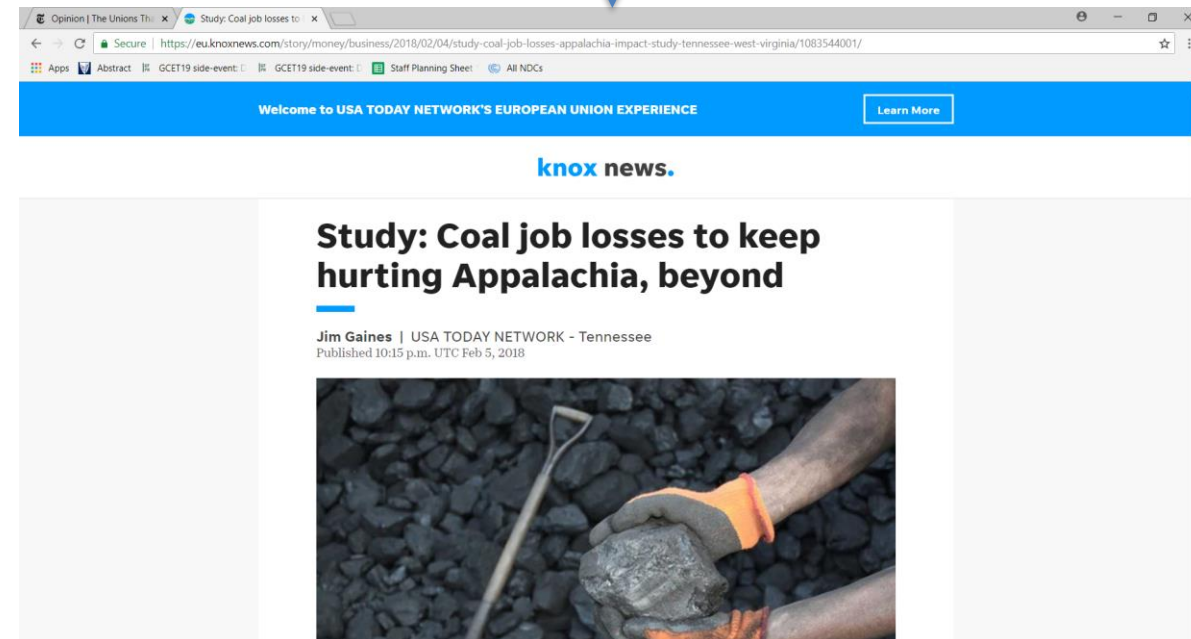
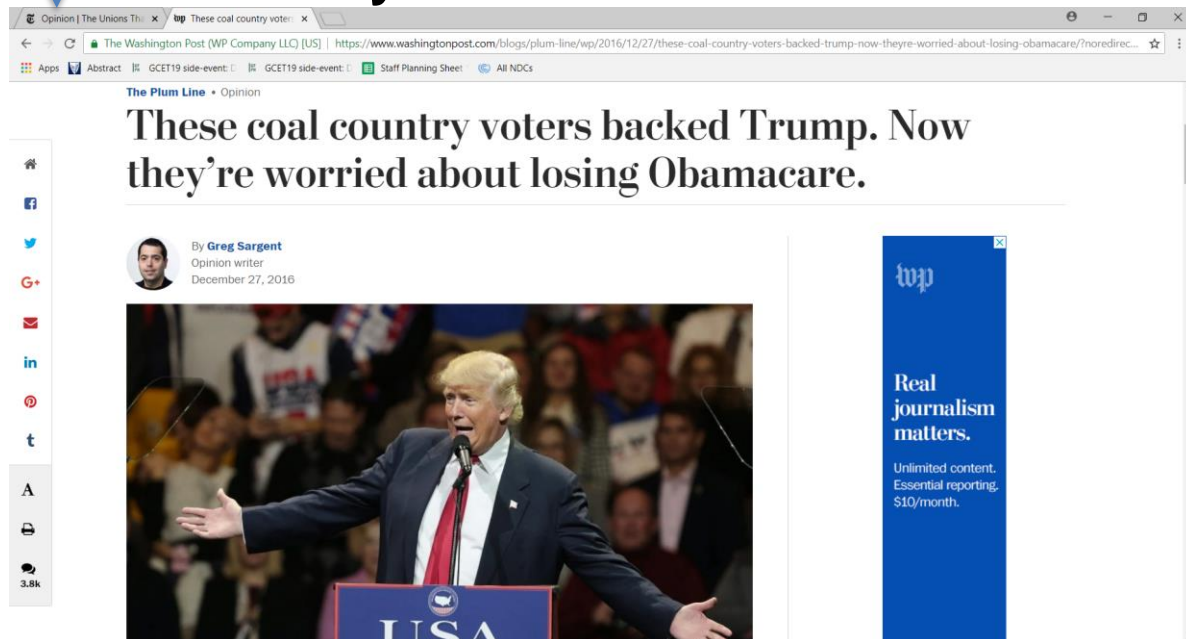
The opinions expressed during the round table were diverse; those captured here reflect the notes taken and do not necessarily reflect the opinions of other participants or the organizers.

We conclude with reflections and recommendations on how we may continue to advance this critical discussion as Canada faces the opportunities and challenges of climate leadership that puts us on track for our fair share in a safer climate future.

What happens when we fail to communicate with and engage workers as partners...US Situation



- November 2016
 - Hillary Clinton promises a massive Just Transition plan for coal miners
 - Donald Trump promises to keep coal mines open
- December 2016
- January 2017: *GOP Senate Majority Leader Mitch McConnell admits publicly coal can't compete with Natural Gas*
- January 2018



IISD recommendations on JT & fossil fuel phase-outs

- **Develop a plan that analyzes the potential impacts** of fossil fuel industry decline and evaluates possible policies to address economic, environmental and social impacts.
- **Identify options for economic diversification, social safety nets and new employment** that can support workers and their families in the transition.
- **Establish a dedicated fund to support a just transition and economic diversification.** Use savings from fossil fuel subsidy reform, as well as environmental taxes and charges, to fund the transition.
- **Engage with all stakeholders, but a particular focus on workers.** An open dialogue with labour groups, communities, industry associations and other interested parties will help to identify challenges and issues with reform, avoiding more serious consequences and helping to defuse opposition to phase out.
 - » More in the IISD TD submission at https://unfccc.int/sites/default/files/resource/69_IISD%20Fossil%20fuel%20phase%20out%20and%20just%20transition%2C%20stories%20for%20success.pdf

IISD's work to date: Just Transition and Coal



IISD's work has focused strongly on coal transitions and coal subsidies as the plans for a global coal-phase out have accelerated (e.g. through the Powering Past Coal Alliance). However, oil and gas discussions are increasingly gaining prominence and will be critical to have to ensure emissions mitigation targets consistent with the Paris Agreement are achieved.



Philip Chan
Eugene Chan
Justin Constantinou
August 2016

© 2016 International Institute for Sustainable Development | IISD.org



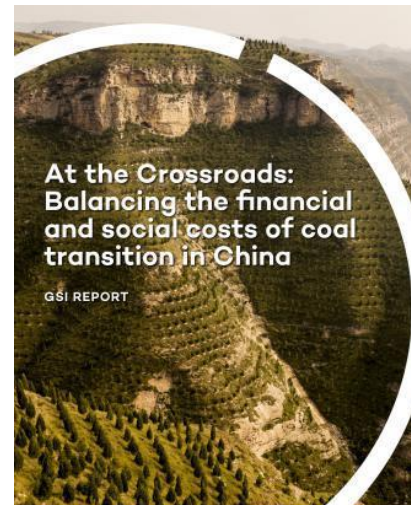
Philip Chan
Charles Schwartz
December 2017

© 2017 International Institute for Sustainable Development | IISD.org



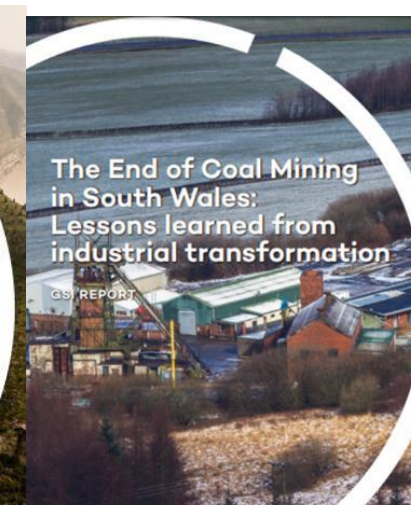
Melissa Harris
Marisa Beck
Feyza Garzanchuk
June 2015

IISD/CIQ © International Institute for Sustainable Development



Richard Heisk
Lucy Kavan
Eugene Chan
Eugene Chan
Eugene Chan
Eugene Chan
July 2017

© 2017 International Institute for Sustainable Development | IISD.org



Thomas Merrill
Lucy Kavan
May 2017

© 2017 International Institute for Sustainable Development | IISD.org



Michaela M. S. S. S.
Eugene Chan
Eugene Chan
Eugene Chan
January 2018

© 2018 International Institute for Sustainable Development | IISD.org