

## Friends' statement of support to Mexico

The representatives of Costa Rica, Denmark, Finland, New Zealand, Norway, Switzerland and Sweden show their support to Mexico in efforts to tackle current government subsidies to fossil fuels, focusing now on gasoline and diesel for transportation. While reform is never easy, Mexico has recognized that the conditions both nationally and internationally provide a favorable context for reform.

Over 40 countries, including Mexico, recognized the importance of reforming subsidies to fossil fuels by endorsing an international Communiqué launched in 2015 by a group of countries called the Friends of Fossil Fuel Subsidy Reform. It calls for a transparent, ambitious and well-supported reform of fossil fuel subsidies. The G20, including Mexico, recognized the need to reduce and reform inefficient subsidies to fossil fuels so as to improve government bank balances, provide government resources to invest in social protection schemes for the poor, and increase efficiency and investment within the energy system. The Paris Agreement which entered into force in November 2016, was adopted by consensus by 195 member countries at the United Nations Framework Convention on Climate Change and sets out a global action plan to attempt to prevent dangerous climate change by limiting global warming to below 2°C. Actions to limit global warming include the reduction or elimination of the use of fossil fuels.

Mexico is not alone in undergoing fossil fuel subsidy reform. 50 countries underwent similar reforms in the last two years, including large economies such as Indonesia and India. All of them took the opportunity of the current low oil price to link their energy prices to world prices. Countries increasingly recognize that fossil fuel subsidies are a poor social welfare policy in that the majority of benefits go to the rich, rather than to the poor. Subsidy reform needs to be undertaken alongside measures that properly protect the poor and vulnerable groups from the impact of higher energy prices.

For example, Indonesia was able to save around USD 15 billion through a combination of fossil fuel subsidy reforms (removing significant gasoline and diesel subsidies). Savings were spread across government ministries, enterprises, regions and villages and aimed at programmes linked to poverty eradication, human development and infrastructure development.

Recent pricing reforms in India, mainly to gasoline and diesel also cut the country's subsidies bill by USD 15 billion, and subsidy reforms have enabled the parallel implementation of one of the largest cash transfer programmes in the world.

An important step to reforming subsidies to fossil fuels is to understand the scale and nature of them through a thorough review. Mexico and Germany, as G20 countries, are undergoing such a review via a peer-to-peer process. These follow on from China and the US who together, last year identified over USD 20 billion of subsidies to fossil fuels and identified plans to reform these. Peru volunteered to undergo a peer review of its fossil fuel policies by the APEC Peer Review Panel. In order to mitigate the effects on vulnerable groups, the government introduced a cook stove distribution programme (LPG and biomass), introduced an LPG voucher scheme, and expanded an existing conditional cash transfer programme.

Reform of course presents challenges. For example, the Philippines tried to reform subsidies three times in the 1990's before eventually succeeding. Its package of measures included developing a national social safety net and investing in renewable energy. The Philippines example, and the many other experiences across the world, show that reform can be successfully undertaken using established

practices. Key among these are that the poor and other vulnerable groups are safeguarded, that the pace of reform is ideally gradual and that savings are used to support national development goals.

Many countries including Mexico have understood that today's low oil prices present an opportunity for reform of their fossil fuel subsidies. These reforms result in savings that can be used to build better social protection schemes and more efficient and cleaner energy systems.

We the undersigned country representatives strongly support Mexico's and other countries' efforts to reform fossil fuel subsidies and we strongly encourage these reforms to be undertaken according to the three basic principles outlined in the international Communiqué: increased transparency around fossil fuel subsidies; ambitious reform; and targeted support to ensure reforms are implemented in a manner that safeguards the poorest.