PRESENTATION:
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Cutting Emissions for a Post-Pandemic World:

Fossil Fuel Subsidy Reform and Carbon Pricing

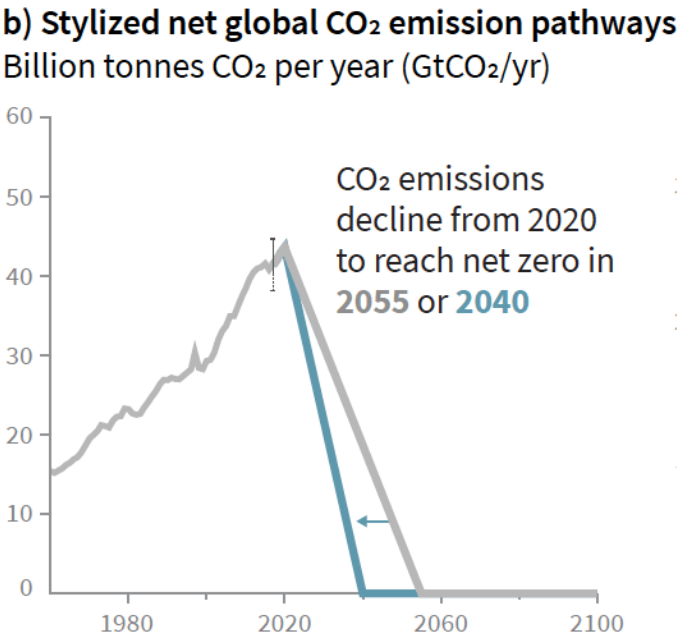
IISD

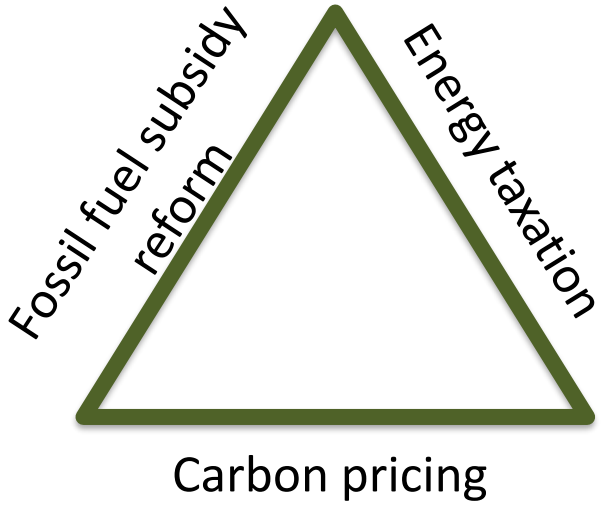
Global Subsidies Initiative

FFFsR
Friends of Fossil Fuel Subsidy Reform

May 20, 2020

Context: the challenge and some key tools





Source: IPCC 2019 https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15_Summary_Volume_Low_Res.pdf

The state of play of fossil fuel subsidies

FFS – Consumption subsidies likely to half due to the oil price plunge

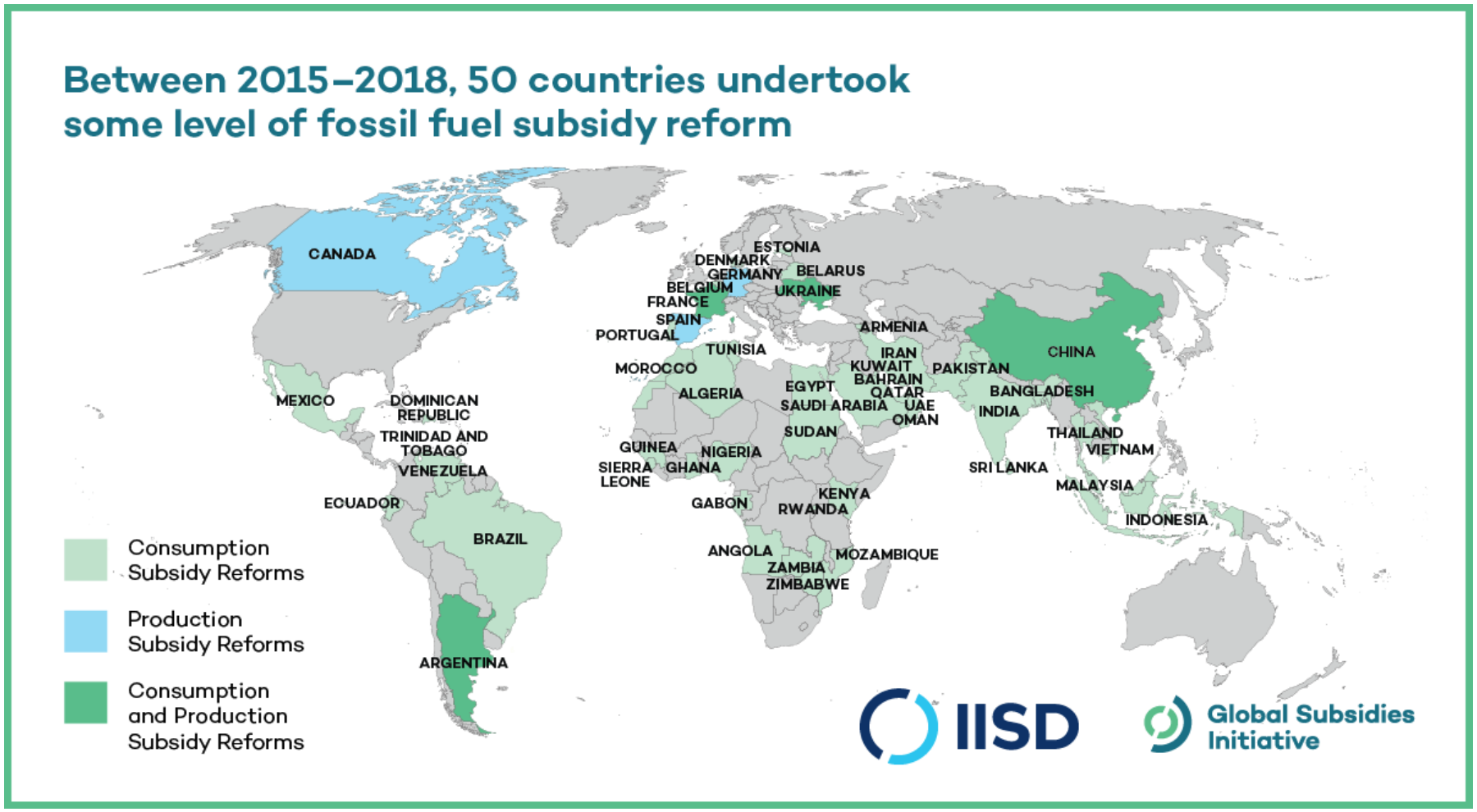
- Down from USD 400 billion in 2018 to roughly USD 200 billion if the oil price averages at USD 30 per barrel in 2020
- Situation similar to 2015 when over 40 countries used the low oil prices to reform their consumption subsidies
- Key challenge is in locking in reforms if and when oil prices increase again

FFS – Production subsidies will increase due to 2020 bailouts

- Fossil fuel production and power already benefitted from subsidies worth around USD 100 billion per year before 2020. Some of the production was not viable without government support ("zombie energy")
- Fossil fuel industry is heavily lobbying for lifelines in 2020

Source and more at: https://www.iisd.org/blog/covid-19-impact-clean-energy

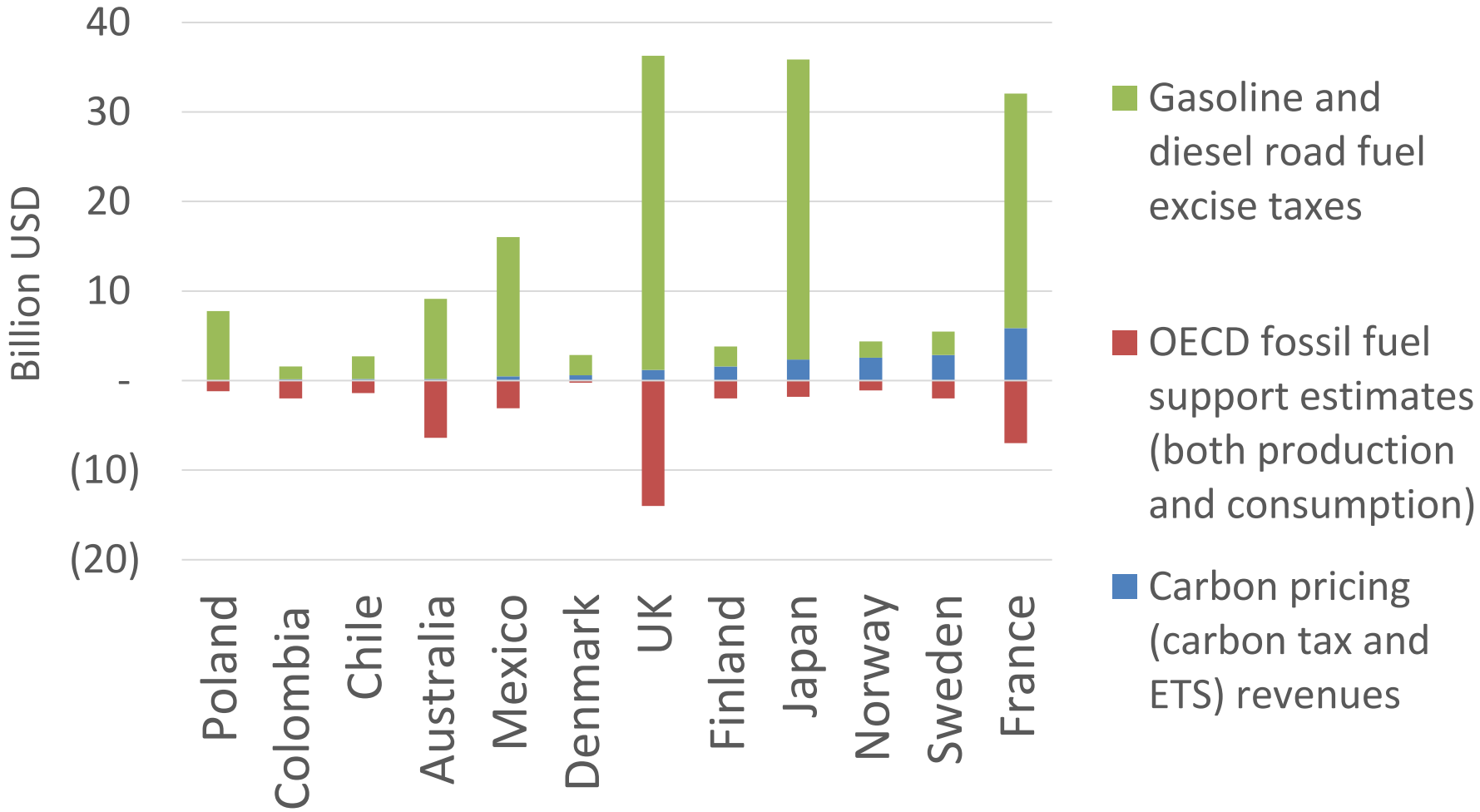
Some countries have made progress against their 2009 commitment “to phase out inefficient fossil fuel subsidies that encourage wasteful consumption”



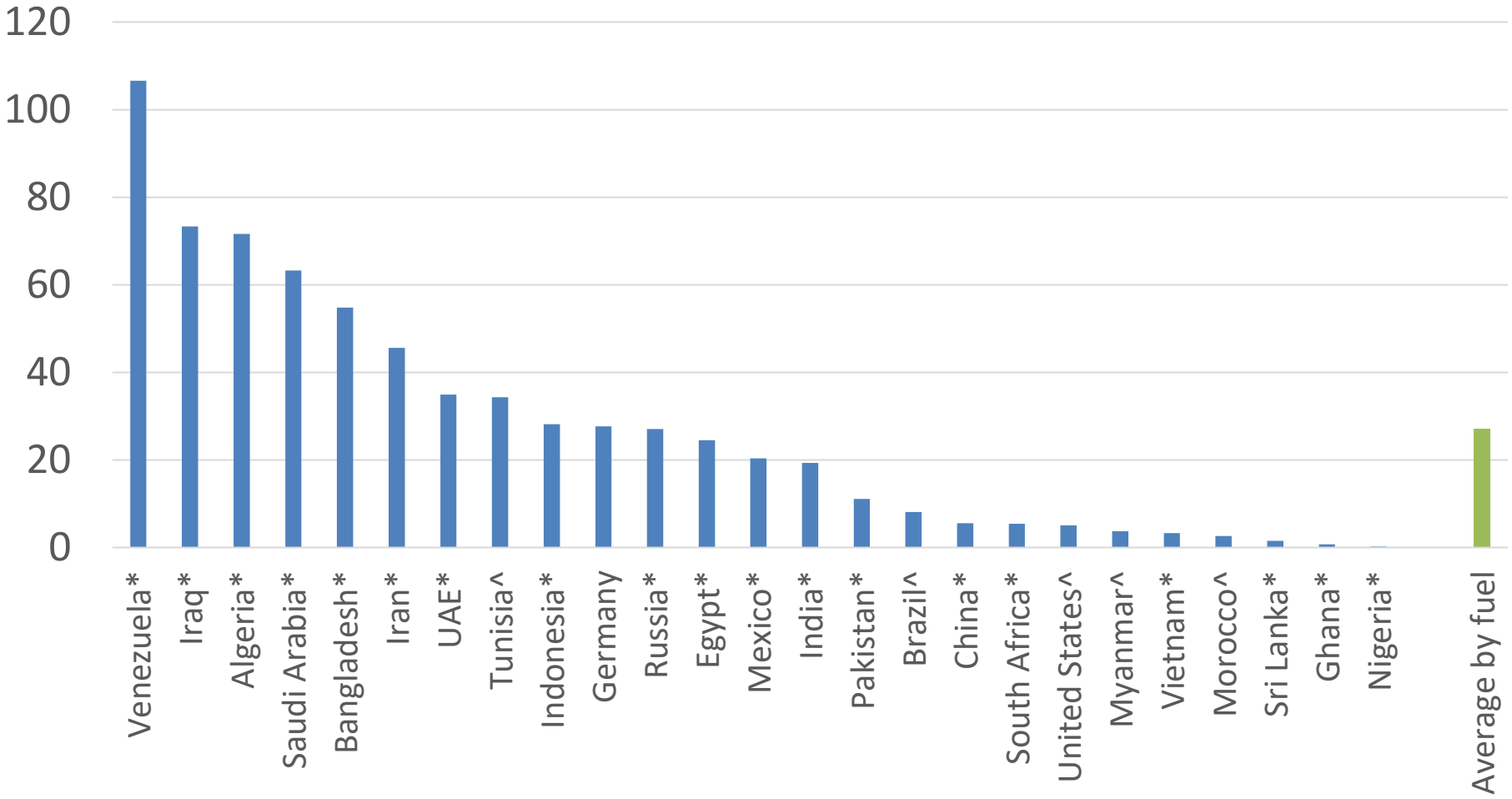
Source: https://www.iisd.org/gsi/subsidy-watch-blog/fossil-fuel-subsidies-and-reform-on-the-rise

The state of play of carbon pricing

Carbon pricing revenues and fossil fuel subsidies in select economies, billion USD (2017)



Consumer subsidies per tonne CO2e emitted from energy, 25 countries (USD, 2016)



Source: IISD/GSI Analysis

Mobilizing funds for recovery

- Reforms of fossil fuel subsidies are also overdue. For consumption subsidies, the current low oil prices are an opportunity to implement reforms, but the challenge is to ratchet them if fuel prices go back up on the world market.
- **A simple tax of just 12.5 cents per litre of gasoline and diesel would generate US$1 billion worldwide, daily.** Such a tax will moblze US$1 trillion within three years, or 20% of the US$ 5 trillion committed by the G-20 countries for recovery.
- Such a tax will still leave gasoline and diesel prices at a low level. For example, in the United States fuel prices have decreased by 27 cents per litre since the start of the COVID19 crisis.
- Both India and Costa Rica have already increased gasoline and diesel taxes and have specifically linked these increases to raising money to respond to COVID-19.

Conclusions

1. Fossil fuel subsidies act as a negative price on carbon undermining other carbon pricing mechanisms
2. Governments should align all their tax, carbon pricing and subsidy policy in line with their climate policy. An effective carbon price, including subsidies, is a key tool for this.
3. This alignment is particularly important for government stimulus and recovery spending (government support including subsidies) in the post pandemic context which could otherwise be incompatible with climate targets.
4. Fossil fuel subsidy reform and increases in explicit and implicit carbon pricing, including through energy taxes could play a major role in generating additional revenues without increasing costs for consumers compared to the costs at the end of 2019. These funds are sorely needed.

Thank You!