HEINRICH BÖLL STIFTUNG
INTERNATIONAL POLITICS

G20 *Themes #8*

Fossil Fuel Subsidies and Finance

What are fossil fuel subsidies?

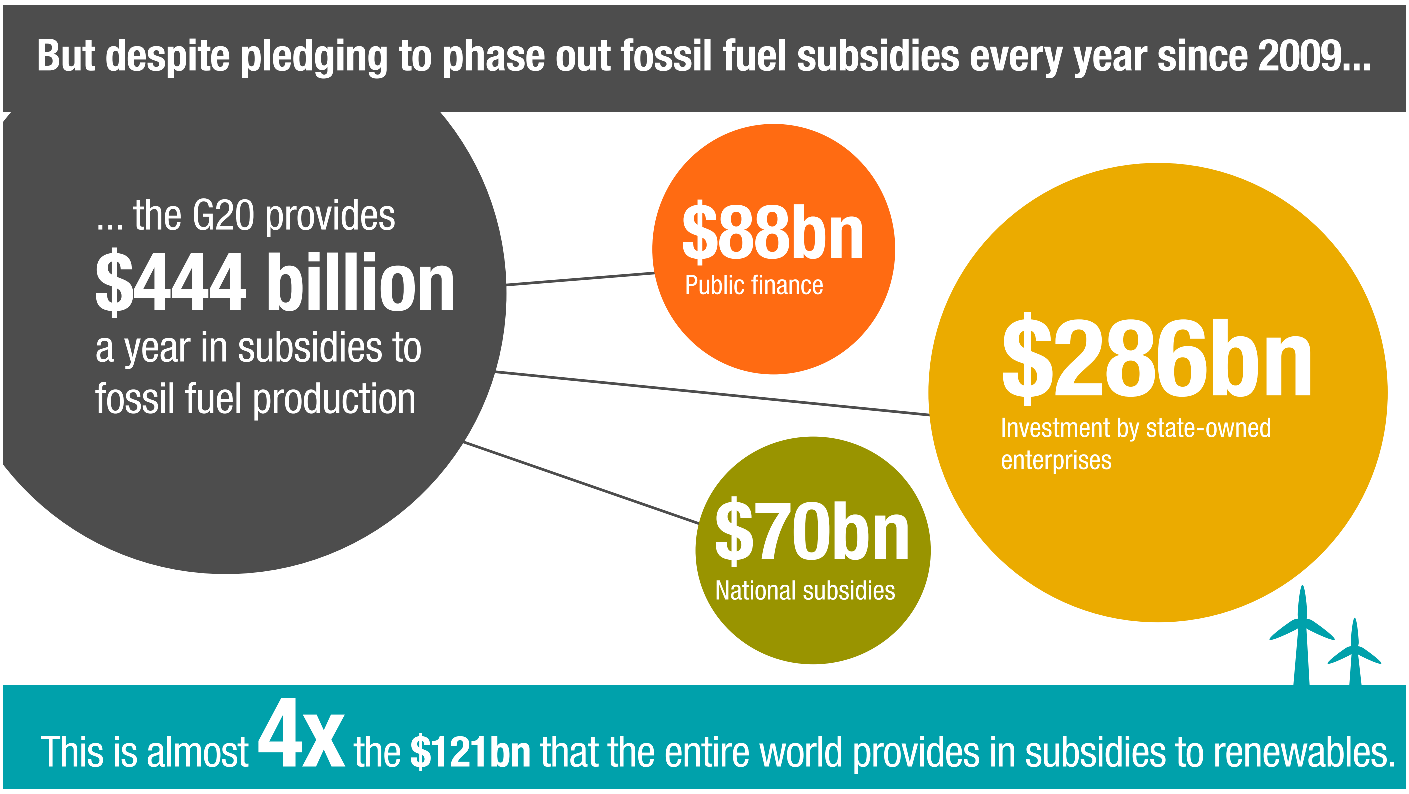
Fossil fuel subsidies encourage the investment in and use of carbon-intensive fuels, such as coal, oil and gas and discourage or undercut the expanded commercialization and use of renewable energies, such as wind, solar, and geothermal. In addition to eliminating wasteful subsidies, it is necessary to redirect financial flows into these renewable sources of energy in order to curb global warming and meet a variety of sustainable development goals.

A recent assessment found that G20 governments are spending $444 billion every year to support fossil fuel production via national subsidies ($70 billion), investments by state-owned enterprises ($286 billion) and public finance ($88 billion).[1] The report shows that subsidies are locking in infrastructure technologies that will release greenhouse gases into the atmosphere for generations while also unlocking new fossil fuel reserves.

On consumer subsidies, the International Energy Association (IEA) estimates that fossil fuel subsidies totaled $493 billion in 2014, though that figure is only for a subset of countries and the global total is likely to be considerably higher.[2] When including externalities - such as the unpriced costs of carbon pollution, health damage (e.g. respiratory illnesses), the estimates of global fossil fuel subsidies - , as the IMF does, then the figure is even higher. The IMF estimates that in 2015, fossil fuel subsidies totaled $5.3 trillion – or $10 million per minute – the bulk of which were in the form of externalities.[3]

G20 goal

At the 2009 G20 Summit in Pittsburgh, G20 leaders committed to "rationalize and phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption." Although this commitment has generated repeated acknowledgments



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by the G20 and G8 (now G7), as well as some new studies and data, it has resulted in limited progress.

At the 2016 China G20 Summit in Hangzhou, the G20 Leaders' Communiqué stated that "in order to support environmentally sustainable growth globally, it is necessary to scale up green financing," and affirm the financial commitments under the UN Framework Convention on Climate Change (UNFCCC).

What is the meaning of the G20 goal?

It is now increasingly understood that we need to keep 80% or more of existing fossil fuel reserves in the ground if we hope to avoid the worst impacts of climate change. The exorbitant levels of public subsidies for fossil fuels continue at the very time that we need to be investing public resources into alternatives to fossil fuels. As the cost of renewables is falling, investment in these technologies now offers higher returns than investment in fossil fuel technologies. As G20 leaders signaled this year at the Chinese Summit, a scale-up of "green" financing – financing for activities such as renewable energies, energy efficiency, and climate-resilient development, also requires a shift away from "brown" fossil fuel finance. Making that shift has never been a more attractive proposition than it is today.

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Limitations regarding goal/commitment

While the G20 committed to a phase out of subsidies in 2009, real progress to date has been slow. Although the G7 has set a deadline for phase out, the G20 has not. By setting such a deadline, it would establish a clear timeline for countries to implement progress on the phase out of fossil fuel subsidies.

There also continue to be significant problems with definitions of the terms used in the commitment. Governments differ in their definitions of what constitutes a "subsidy", as well as what constitutes an "inefficient" subsidy. Indeed, some G20 countries claim that their subsidies are "efficient". This has hindered progress toward holding G20 members accountable for the removal of subsidies.

Another limitation of the commitment is its primary focus on consumption subsidies, the removal of which can unfairly burden low-income groups unless an effective targeted program provides relief. Production and exploration subsidies are crucial parts of the picture as they support and allow expansion of the fossil fuel industry. Recent progress, described below, has at least ensured that subsidies to consumers and producers of fossil fuels are subject to elimination.

The G20 has further not made any clear commitments to end public finance for fossil fuels, in spite of commitments to scale up green finance and climate finance.

Progress/regression over time

The 2016 Chinese G20 Communiqué failed to make any further commitments on the reform of subsidies or financing for fossil fuels. The G20 did take a small step forward on transparency, with China and the United States submitting, and later publicly releasing, voluntary self- and peer-reviews of their fossil fuel subsidies. Since the 2009 commitment, they were the first G20 members to undertake such peer reviews. While the reviews were far from comprehensive in cataloging all subsidies, both countries identified a mix of consumer and production subsidies to be phased out, demonstrating that the 2009 phase-out commitment includes both types of fossil fuel subsidies.

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The 2016 G7 Summit took an important step forward, as world leaders committed to language urging all countries to eliminate inefficient subsidies by no later than 2025, and left open the possibility of an earlier phase-out for some countries. The 2016 North American Leaders' Summit made a similar commitment, adding Mexico to the group of countries committed to phasing out fossil fuel subsidies by 2025 or earlier.

In 2013 and 2014, several G20 member countries, including the United States, the United Kingdom, France and Germany, made various commitments to limit international finance for coal power plants. In 2015, OECD countries, including longtime holdouts Japan, Australia, and Korea, agreed to establish some limits to international coal finance in the form of export credits, under the OECD Arrangement on export credits. Yet these countries continue to approve multibillion-dollar deals for coal power plants. No commitments have yet been made around oil or gas finance.

The German G20 Presidency may offer better prospects for action on fossil fuel subsidies and finance, as Chancellor Angela Merkel has to defend a reputation as a climate champion. As a member of the G7, Germany has already committed to a 2025 date for fossil fuel subsidy phase out, and has also made bilateral commitments to limit international coal finance, as well as a commitment under the OECD.

Future (desired) direction

To catalyze real progress on phasing out fossil fuel subsidies, G20 members should enshrine the following in the text of the next G20 Communiqué:

- We reinforce our commitment to phase out and rationalize fossil fuel subsidies by 2020, recognizing the need to support the poor, and supported by transparent and publicly available annual reporting. Fossil fuel subsidies for production and consumption encourage wasteful consumption, reduce our energy security, impede investment in clean energy sources and undermine efforts to deal with the threat of climate change.
- We commit to strengthening green and low-carbon policies and regulations with a view to ending public investment in oil, gas and coal projects both domestically and internationally by 2020, starting with the elimination of public finance for coal and other fossil fuel exploration, supported by transparent and publicly available annual reporting.

G20 members should further commit to be fully transparent by disclosing from 2018 onwards data on all fossil fuel subsidies in a consistent format that is publicly available on an annual basis.

Adding the above language in the text of the G20 Communiqué would commit G20 countries to:

- Setting a clear timeline for the full and equitable phase out of fossil fuel subsidies by 2020.
- Setting a clear timeline for the phase out of domestic and international public finance for oil, gas and coal production by 2020.

Some input by engagement groups

- Over 200 civil society groups called on the G20 to make the above-mentioned commitments to phase out on fossil fuel subsidies and finance by 2020 in the 2016 G20 Communiqué.[4]
- The 2016 Civil 20 Communiqué included the following on fossil fuel subsidies: "Overall energy consumption shall be managed by gradually phasing out fossil fuel subsidies and increasing the share of the renewables in the energy mix and higher global energy efficiency."[5] The previous Civil 20 in Turkey called upon G20 leaders to: "Take immediate action to completely and equitably phase out fossil fuel subsidies by 2020."[6]
- The 2016 Business 20 policy recommendations encourage the facilitation of green financing and investment markets.[7]
- Separately from the Business 20, three insurers with over $1.2 trillion in assets under management, along with the Institute and Faculty of Actuaries, released a statement ahead of the 2016 G20 Leaders' Summit calling for a 2020 deadline for the phase out of fossil fuel subsidies.[8]
- The Think Tank 20 in China called for the promotion of a 'green financial system',[9] while the Turkish T20 stated: "In particular there is scope to benefit from the reduced subsidy burden in the case of oil importing countries."[10]

Umweltbundesamt

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