Rio+20 should deliver concrete commitments on fossil fuel subsidy reform

June 2012

A global consensus is emerging on the need to eliminate the estimated $750bn US dollars in public funds spent each year on fossil fuel subsidies. The Rio+20 UN Conference on Sustainable Development presents should be the place turn talk into action.

We cannot afford further delays. Since 2009, when G20 leaders called for the removal of inefficient subsidies, there have been numerous statements calling for their elimination. Some 53 countries have committed to removing fossil fuel subsidies over the medium term. Echoing these calls, the UN Secretary General's High Level Panel on Global Sustainability (GSP) unequivocally called for the removal of these subsidies in its "Resilient People Resilient Planet: A Future Worth Choosing" report. Co-chaired by the presidents of Finland and South Africa, the panel was comprised of major policy makers from 20 nations, including the EU, US, Brazil, India, China, the Russian Federation and others. The report recommends to "phase out fossil fuel subsidies and reduce other perverse or trade distorting subsidies by 2020".

In the remaining rounds of negotiations, we urge governments to retain and strengthen the following:

1. **A strong reaffirmation of the political commitment to phase out production and consumption fossil fuel subsidies**: "We commit to phase out market-distorting and environmentally harmful subsidies that impede the transition to sustainable development, including fossil fuels, with safeguards to poor and vulnerable groups by 2020." (Paragraph 126 of the negotiated compilation text of 4 May 2012 allows for similar language.)
2. **Agree to full transparency, including regular ongoing reporting of existing fossil fuel subsidies, as well as expenditures and actions to phase out subsidies**.
3. **Assistance and safeguards to developing countries, as well as poor and vulnerable groups**: Fossil fuel subsidy removal should be achieved in a manner that includes "safeguards for poor and vulnerable groups" (addressed in Paragraph 126 of the compilation text), as well as financial, technical and capacity building assistance to developing countries. (Paragraph 104 tredec proposes a "pledge to assist other countries to phase out fossil fuel subsidies that are incompatible with sustainable development".)
4. **Establish a deadline of 2020** for fossil fuel subsidy phase out. Re-introduce the number to Paragraph 126 of the negotiated compilation text. Governments should establish a timeline to finalise the details of the phase-out by no later than 2015.
5. **Agree to and strengthen the establishment of a platform or centre for excellence to equitably and transparently guide fossil fuel subsidy reform**. "Call for the rationalisation and phasing out of environmentally or economically harmful subsidies, including for fossil fuels that encourage wasteful consumption and undermine sustainable investment and are incompatible with sustainable development, complemented by measures to protect poor and vulnerable groups. In this regard we support the establishment of a platform, recommending international objectives and targets and facilitating the most effective practices. We support that in addition to the platform countries pledge to assist other countries to phase out fossil fuel subsidies that are incompatible with sustainable development." (Full text proposed by the EU in Paragraph 104 tredec c.)

Scale of Fossil Fuel Subsidies

As the table overleaf shows, some work is underway to quantify global fossil fuel consumption and production subsidies. There are large gaps in these numbers, however, resulting in uncertainty in current dollar amounts of subsidies going to fossil fuels. This uncertainty highlights the need for transparency and an agreed international reporting process to begin immediately.

Table 1. Recent Global Fossil Fuel Subsidy Estimates

	Wealthy Country Subsidies (Annex 2 and OECD)*	Developing Country Subsidies (Non-Annex 1 and Non-OECD)**	International Financial Institutions (IFIs) and Export Credit Agency Subsidies (ECAs)***
Organisation for Economic Cooperation and Development (OECD)[1] and International Energy Agency (IEA)	$45-75bn a year	$409bn in 2010 – about $110bn up on 2009. Expected to reach $630bn in 2012[2]	OECD and IEA studies exclude IFIs and ECAs
Estimates from Non-Governmental Organisations (NGOs)	At least $100bn a year[3]	$409bn in 2010 and up to $630bn in 2012, excluding IFIs and ECAs	For IFIs only, more than $15bn in 2010.[4] The US Export Import Bank alone offered $4.9bn in fossil fuel finance in 2011

Notes

* *Estimates include producer subsidies for corporations. The OECD study covers 24 industrialised countries. These estimates exclude military subsidies, export credits and support for development banks*

** *Estimate only includes consumer subsidies, going to reduce energy costs. Producer subsidies in developing world are not catalogued at all.*

*** *These numbers vary annually because they are based on loans and project funding*

The total 2012 global fossil fuel subsidy estimate is at least US$750 billion.

The benefits of eliminating fossil fuel subsidies

Fossil fuel subsidy removal would reduce greenhouse gas emissions that lead to dangerous climate change. It found that if fossil fuel consumption subsidies in developing countries only were phased out by 2020, global primary energy demand would be cut by nearly 5% and carbon dioxide emissions by 5.8%, or 2.6 gigatons[5]. The IEA should really do this analysis for all countries. Imagine what could be delivered for the climate if subsidies were also eliminated by the developed world, which should take the lead. Further, reducing fossil fuel subsidies would also create local environmental benefits. Although there is less research quantifying these benefits, reducing point source pollution often associated with fossil fuel energy sources could provide substantial air quality and water quality improvements in addition to reduced greenhouse gas emissions. Countries have begun to recognise the emission reduction potential of eliminating fossil fuel subsidies. Ahead of the first negotiating session of 2012 under the auspices of the UN Framework Convention on Climate Change, Parties were requested to submit “views on options and ways for further increasing the level of ambition” under the newly created “work plan on enhancing mitigation ambition” within the Durban Platform for Enhance Action. Among these submissions, over 110 countries were represented in submissions that called for phase out of fossil fuel subsidies to be considered as a way to increase mitigation ambition. This includes all members of the Least Developed Countries grouping, the Alliance of Small Island States, the EU, New Zealand, Norway, Switzerland, and the US.

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1 First-Ever OECD Inventory of Support to Fossil-Fuel Production or Use, October 2011 http://www.oecd.org/dataoecd/41/44/48802877.pdf.
2 Estimate made by Fatih Birol, Chief Economist at the IEA, and included on IEA website http://www.iea.org/weo/quotes.asp.
3 Based on Global Subsidies Initiative, IISD, Bank Information Center, ECA-Watch, Pacific Environment and Oil Change International estimates. The estimate of $100bn in annual production subsidies in wealthy countries is also cited in the IGO 4 report commissioned by the G20 and prepared by OECD, OPEC, World Bank and IEA Study, November 2010.
Abstract available at: www.iea.org/files/energy_subsidies.pdf.
4 Oil Change International analysis in http://shiftthesubsidies.org database.
5 OECD/IEA (2011). World Energy Outlook 2011. Paris: 2011. www.worldenergyoutlook.org.