



Fossil Fuel Subsidy Reform Bulletin

A Briefing Note of the Side Event on “Fossil Fuel Subsidy Reform and Investments in Clean and Affordable Energy”

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BRIEFING NOTE OF THE FOSSIL FUEL SUBSIDY REFORM AND INVESTMENTS IN CLEAN AND AFFORDABLE ENERGY: 26 MAY 2015

The “Fossil Fuel Subsidy Reform and Investments in Clean and Affordable Energy” side event took place on 26 May 2015 at the Hotel Fiesta Americana, Merida, Mexico, immediately prior to the Sixth Clean Energy Ministerial. The event was presented by the Government of Denmark and the Global Subsidies Initiative, and hosted by the US Department of Energy and Government of Denmark.

Scott Vaughan, President, International Institute of Sustainable Development, moderated the event. Ernest Moniz, Secretary of Energy, US, underscored his country’s commitment to fossil fuel subsidy removal and the imperative of freeing up



Rasmus Helveg Petersen, Minister for Climate, Energy, and Building, Denmark

resources to invest in a clean technology future.

Acknowledging significant global progress on subsidy removal, Rasmus Helveg Petersen, Minister for Climate, Energy, and Building, Denmark, observed that more than 50 countries have committed to phasing out fossil fuel subsidies. He noted the enormity of the task, called for sharing best practices and taking advantage of current low

oil prices to reinforce efforts ahead of the 21st Conference of the Parties (COP 21) of the UN Framework Convention on Climate Change Conference (UNFCCC) in December.

Maria van der Hoeven, Executive Director, International Energy Agency, provided an overview of global fossil fuel trends. She noted that in 2014, fossil fuel subsidies exceeded US\$500 billion: four times the subsidies for renewable energy. She said high energy prices between 2008 and mid-2014 had been the key driver for reform but that current lower prices may reduce the budgetary urgency for governments to take action.



Maria van der Hoeven, Executive Director, International Energy Agency



Scott Vaughan, President, IISD, moderated the fossil fuel subsidy reform side event

On challenges, van der Hoeven observed that governments are still adopting an ad hoc approach to reforms without communicating effectively or understanding public perceptions regarding subsidy removal. She called for: building public trust by demonstrating that financial savings made from subsidy removal would benefit consumers; targeting support to the most vulnerable populations; and addressing oil price volatility with transparent pricing that depoliticizes energy pricing.

César Alejandro Hernández Alva, Director General, Secretariat of Energy (SENAR), Mexico, outlined his country’s efforts to phase out fossil fuel subsidies, highlighting the Energy Transition Act. He said the Act is aimed at: regulating the sustainable use of energy; promoting clean energy; and reducing emissions in the electricity sector. He noted that 30% of electricity consumption is subsidized with households paying 40% and agriculture 20% of consumption costs. Hernández Alva observed that subsidies would now have to come from the budget allocation to enhance transparency.



César Alejandro Hernández Alva, Director General, SENAR, Mexico

Charles Feinstein, World Bank, discussed energy subsidy reform in the context of high price volatility. He emphasized that subsidies are regressive and high-income earners capture the largest share with



Charles Feinstein, World Bank





Rigoberto Ariel Yepez-Garcia, Inter-American Development Bank

poor households spending up to 20% of their income on energy. He advocated other compensation type mechanisms targeted towards health and education instead of energy, but acknowledged that subsidies are politically sensitive and reflect deeply entrenched interests.

Feinstein outlined the World Bank's work on subsidy reform, including capacity building, training and analytical work. He explained that technical assistance for subsidy reform is matched with development policy lending, citing the Energy Sector Management Assistance Program (ESMAP), a global multi donor technical assistance trust fund providing US\$20 million to support analytical dialogue on subsidy reform.

Rigoberto Ariel Yepez-Garcia, Inter-American Development Bank, highlighted his organization's report assessing the impact of energy pricing policies in Latin America and the Caribbean. He noted that the shows that subsidies are aimed at preventing inflation, protecting the living standards of vulnerable populations and restoring competitiveness, but these objectives were not reached.

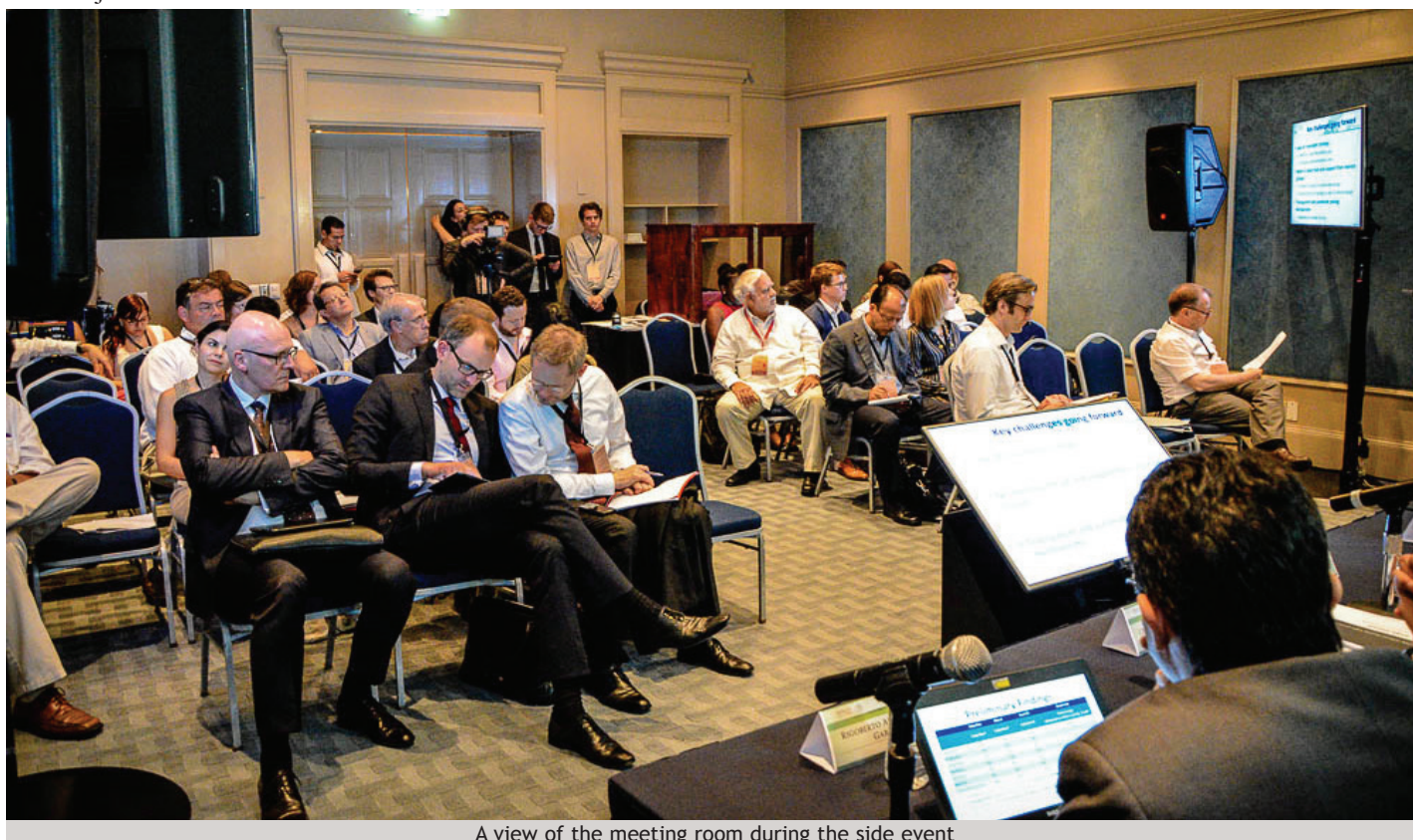


Christian Pilgaard Zinglersen, Deputy Permanent Secretary, Ministry of Climate, Energy and Building, Denmark

Yepez-Garcia explained that subsidies are commonly applied to gasoline, diesel and liquefied petroleum gas, and are either implicit (illegal connections or theft) or explicit (applied through block tariffs or volume differentiated tariffs). He said there is a high variation in the impact of subsidies in the region and that in the past two years, the volume of subsidies has decreased, which presents an opportunity to tax fuel consumption in order to earn additional revenue.

Responding to a question on why subsidies should be addressed by energy ministers, rather than finance ministers, Christian Zinglersen, Denmark, noted that introducing targeted energy policy intervention could counter a subsidy approach. Phyllis Yoshida, Deputy Assistant Secretary for Asia and the Americas, US, highlighted peer review work on fossil fuel subsidies noting that the first peer review for Peru had just been completed with reviews in the pipeline for the Philippines, Viet Nam, and Chinese Taipei.

During the ensuing discussion, participants addressed: the role of energy ministers in subsidy reform; the merits of subsidizing energy access; and the main barriers to subsidy reform.



A view of the meeting room during the side event