



# Climate Action Network

## G20 Issue Brief

### Fossil Fuel Subsidies

*Suggested language for the G20 Leaders' Summit Communiqué:*

*We [reaffirm our commitment][commit] to rationalize and phase-out fossil fuel subsidies. We welcome G20 countries' progress on their commitments and further commit to monitor, review and share informally this progress in conjunction with the voluntary peer review process. We [encourage][affirm that] all G20 countries [to] [will] conduct peer reviews as soon as possible, and commit to producing a common methodology for these reviews, including the measurement and reporting of subsidies in an open and transparent manner, in order to enable phase out of fossil fuel subsidies no later than 2020.*

*We welcome the efforts by G20 countries towards making finance flows from domestic and international sources consistent with a pathway towards cost-effective, clean and healthy energy sources. Furthermore, we commit to establish by 2020 national benchmarks for evaluation of financing eligibility of energy projects for public finance, based on the global common good, climate limits in line with the best available science, and delivering access to energy for all. These benchmarks shall redirect domestic and international public finance to competitive, cost-effective and sustainable energy sources.*

#### *Context:*

Fossil fuel subsidies distort markets, give the wrong price signals and disincentivise investments in renewable energy and energy efficiency, thus hampering the low carbon transition<sup>1</sup>. Subsidies to fossil fuels impose large fiscal costs on governments and drain scarce financial resources away from other key sectors. It is estimated that fossil fuel subsidies contributed up to 36% of global emissions between 1980 and 2010, while also exacerbating health problems, air and water local pollution.<sup>2</sup> Limiting their use is a key step towards reducing inequality and achieving inclusive growth, since fossil fuel subsidies disproportionately benefit the middle and upper classes.<sup>3</sup>

However, there is great potential to enhance the clean energy transition and step up climate action through phasing out fossil fuel subsidies.

The G20 has regularly articulated commitments to phasing out fossil fuel subsidies since 2009, and it is best placed to lead the way and act on this commitment. Building on the peer review efforts of China, the US, Germany, Mexico, Italy and Indonesia, all G20 countries can work together to establish a constructive and coherent framework to identify and address their respective fossil fuel subsidies. CAN emphasizes that due care should be paid towards consumption subsidies from which some poorer communities currently benefit.

#### **In 2018, CAN calls on the G20 to:**

- **Urgently set a timeline for the complete and equitable phase-out of fossil fuel subsidies, leading with the full phase-out of fossil fuel *production* subsidies by 2020, as a minimum;**
- **Establish a timeline and clear guidance for the completion of peer review of fossil fuel subsidies by all G20 members to enable equitable phase out of all fossil fuel subsidies.**
- **Set up a process in the sustainability working group to initiate redirection of energy-related domestic and international public finance to only support cost-effective, clean, healthy and safe sources of renewable energy and energy efficiency by 2020.**

<sup>1</sup> Analysis of the Scope of Energy Subsidies and Suggestions for the G20 Initiative - First Report. Joint Report of the IEA, OPEC, OECD, World Bank. 2010. [https://www.iea.org/media/weowebiste/energysubsidies/second\\_joint\\_report.pdf](https://www.iea.org/media/weowebiste/energysubsidies/second_joint_report.pdf)

<sup>2</sup> OxCarre (2014) Dirty Little Secrets: Inferring Fossil-Fuel Subsidies from Patterns in Emission Intensities:

<http://www.economics.ox.ac.uk/OxCarre/dirty-little-secrets-inferring-fossil-fuel-subsidies-from-patterns-in-emission-intensities>

<sup>3</sup> ODI (2014) Time to change the game: Fossil fuel subsidies and climate: <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8668.pdf>