Setenay Hizliok Giorgia Monsignori Antonina Scheer November 22nd, 2024

Are we getting any closer to ending fossil fuel subsidies?

Countries pledged to phase out fossil fuel subsidies "over the medium term" 15 years ago. Not only have they failed to make progress, but subsidies have increased. ***Setenay Hizliok, Giorgia Monsignori*** *and* ***Antonina Scheer*** *explore the domestic commitments of countries in this matter. During COP29, some of them have made promising announcements to accelerate phaseout, but G20 declaration announced early this week could not go beyond repeating the same old pledge.*

Phasing out fossil fuel subsidies is a key part of the low-carbon transition, complementing other mitigation policies like carbon pricing and green subsidies. According to the IMF, removing explicit fossil fuel subsidies can reduce global CO_2 emissions by five per cent by 2030 from business-as-usual levels. This reduction would reach 43 per cent if implicit subsidies were also addressed through comprehensive carbon pricing.

Political, social and economic concerns may hamper the phaseout because subsidies are often used to target a certain sector, such as agriculture, or a certain group vulnerable to high energy costs, like low-income households. Producer subsidies tend to persist due to energy security concerns or current growth models that generate taxable revenues from the fossil fuel industry. The removal of these subsidies may raise social justice or economic competitiveness concerns. Implementing fossil fuel subsidy reform with targeted compensation, green economy models or enhanced international cooperation could help address such concerns.

Milestones in phaseout commitments

The first joint pledges to phase out inefficient fossil fuel subsidies were stated in 2009 by the G20, G7 and the Asia-Pacific Economic Cooperation Forum (APEC). Over the years, these groups have reaffirmed their pledges while other joint statements in broader global forums have emerged as part of the UN Sustainable Development Goals, and the UN climate conferences COP26, COP27 and COP28.

These commitments acknowledge the need to eliminate fossil fuel subsidies and thus represent an important foundation for action. However, they often lack detail and credibility. The G7 is the only country group to have established a deadline, which is set for 2025. These commitments also open up an ambiguous loophole by focusing specifically on so-called "inefficient" fossil fuel subsidies. These are often defined as subsidies that "encourage wasteful consumption" or that "do not address energy poverty or just transition".

Recent developments show that countries are taking a step in the right direction, albeit belatedly. G7 countries have been committing to further transparency and exploring joint fossil fuel subsidy inventories since 2022 and finally agreed to work towards a common definition of "inefficient" fossil fuel subsidies in 2024. At COP28, 12 countries launched Coalition on Phasing Out Fossil Fuel Incentives Including Subsidies (COFFIS) made pledges that went beyond transparency and international cooperation. At COP29 COFFIS has welcomed three new members and shared progress on their joint commitments, only five of them releasing national inventories. They will state national phaseout plans next year at COP30. A groundbreaking pledge was announced on 15 November: Costa Rica, Iceland, New Zealand and Switzerland have committed to phase out fossil fuel subsidies and defined 'prohibited' fossil fuel subsidies in a legally binding trade agreement. This signals an enhancing transparency and accountability understanding.

Measuring progress at the country level

1. The lack of progress monitoring is a serious gap: none of the joint commitments to phase out subsidies are tracked consistently or regularly. Although the 2030 SDG Agenda calls on countries to report how much they spend on fossil fuel subsidies, none of the G20 countries do this on a regular basis. Some initiatives like the International Institute for Sustainable Development's scorecards and G20 and APEC peer reviews have provided one-time evaluations on progress. In addition, the new Assessing Sovereign Climate-related Risks and Opportunities (ASCOR) tool systematically evaluates the existence, timeline and transparency of such commitments. This tool assesses countries annually on two key questions: has the country committed to a deadline by which to phase out fossil fuel subsidies; and does the country publish an inventory of explicit fossil fuel subsidies? ASCOR also enables consistent comparisons by identifying evidence for fossil fuel subsidies across a range of relevant databases (such as the IMF, OECD, IEA, UNSDG).Using the ASCOR methodology, we provide a snapshot of G20 countries' progress in achieving their phaseout

pledges. We analyse the clarity, accountability, level of ambition and transparency of these pledges. Our analysis reveals four key findings:

1. The G20's joint commitment is largely not being implemented at the domestic level, with phaseout commitments rarely restated in domestic policies. Brazil sets a target in its Agenda for a More Sustainable Brazil to rationalise inefficient fossil fuel subsidies and phase out harmful subsidies, but lacks a deadline. Only Canada, Germany and Italy commit to a deadline in a domestic policy document.

2. Canada is the only country that published guidelines to identify "inefficient" fossil fuel subsidies. This is a necessary step for countries to identify which subsidies to eliminate. Although they do not define 'inefficient', Germany and Italy use relevant categorisations such as 'environmentally harmful' to classify the types of subsidies they aim to phase out. Both countries are also exploring frameworks or methodologies to apply clearer definitions for these categories.

3. Disclosing transparent inventories of fossil fuel subsidies is rare. Only Italy, Germany and France report their subsidies regularly, within their National Energy and Climate Plans (NECPs), as required by the EU. Germany and Italy also have internal reporting mechanisms which are updated regularly.

4. Disclosing fossil fuel subsidies in annual budget reports or ministry-specific documents is an emerging practice. However, many of these do not encompass all existing subsidies or they include insufficient detail (including on fuel type, amount or period covered). For example, although Argentina's disclosure on energy subsidies includes fossil fuels, the fuels are not clearly and comprehensively identified. Issues regarding the scope of reporting may stem from a lack of inter-ministerial collaboration or clarity, leading to the absence of a centralised public inventory approach.

How to accelerate the phaseout

Limited action at the domestic level highlights the urgent need to accelerate progress in phasing out fossil fuel subsidies. We assess that countries must do three things:

Define 'inefficient' fossil fuel subsidies

International cooperation can play a key role in removing legal barriers stemming from international treaties and addressing competitiveness concerns. However, countries must move beyond vague pledges and set an agreed definition. They can develop internal guidance, as Canada has, to identify relevant subsidies. An agreed framework should enable countries to set phaseout timelines tailored to their national circumstances. The recent Agreement on Climate change, Trade and Sustainability can serve as a base for this kind of framework. During its G7 presidency in 2025, Canada should ensure a common definition is on the agenda and share its experience with its self-review framework.

Report transparently, consistently and regularly

Countries should regularly report the total amount spent on fossil fuel subsidies following guidance such as that of the UN SDGs. This reporting needs to be complemented by transparent and consistent fossil fuel subsidy inventories. EU member states sometimes disclose inventories in their NECPs. Reporting tools under the UNFCCC such as the Biennial Transparency Reports (BTRs) provide an opportunity to enhance transparency around fossil fuel subsidies. Domestic reporting mechanisms, such as subsidy catalogues as in Italy can enhance transparency by detailing the amount and rationale for subsidies as well as specific phaseout dates. National inventories announced during COP29 may also encourage other countries to publish similar inventories.

Provide targeted support in line with just transition principles

Although fossil fuel subsidies are economically inefficient, phaseouts can pose socioeconomic concerns too. To alleviate potential disproportionate impacts, countries can integrate just transition principles into fossil fuel subsidy phaseouts by establishing compensation measures for vulnerable communities and sectors. G20 countries can learn from Indonesia, which compensated low-income households through cash transfers or from Morocco, which allocated public finance to renewable energy sources, creating green jobs and enhancing national energy security.

Developments at COP28 and in the G7 statement (2024) signal that countries are finally aligning on an approach to define fossil fuel subsidies and track progress consistently. They should announce clear phaseout timelines, which may be differentiated by country, and build on the G7's promise to develop a common and transparent phaseout framework. These need to be applied with no further delay and used as a replicable model for other countries.

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- *This blog post is an edited and updated version of Closing off the taps: time for the G20 to phase out fossil fuel subsidies, published on the site of LSE's Grantham Research Institute on Climate Change and the Environment.*
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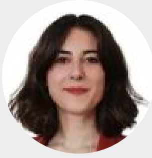

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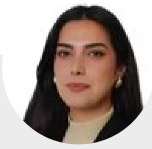

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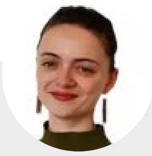

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