

Briefing: Pathways in the Paris Agreement for ending fossil fuel subsidies

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Key messages

The Paris Agreement, which was agreed in December 2015, sets the framework for immediate actions and long-term strategies to prevent dangerous climate change. This includes opportunities to address a significant obstacle to the Low Carbon Transition – subsidies and public finance for fossil fuels.

Taking steps to end public subsidies for high carbon energy is critical for meeting one of the key goals of the agreement: *'making financial flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development'*.

Our analysis highlights a number of key pathways within the Paris Agreement that governments can use to support the phase out of fossil fuel subsidies. These present opportunities for all governments to:

- Ensure that global financial systems and flows (including those driven by government subsidies) work towards climate action and not against it.
- Include fossil fuel subsidy reform, and other fiscal policy tools, such as carbon pricing, in Nationally Determined Contributions (NDCs).
- Integrate coherent fiscal policies and decisions to strengthen their Intended Nationally Determined Contributions and increase their greenhouse gas emission reductions.
- Guarantee that climate finance is not used to support the production and consumption of fossil fuels and instead gets directed towards enhanced low-carbon and climate resilient development, including through supporting efforts to phase out fossil fuel subsidies.
- Include reporting on fossil fuel subsidies and tracking of progress in phasing out fossil fuel subsidies as part of national communications and provide clear and understandable information to the public regarding the scope and scale of fossil fuel subsidies and efforts to address them.
- Use the global stock-take as an opportunity to re-visit and increase mitigation ambitions, including through phasing out of fossil fuel subsidies.

- Develop long-term low-emission development strategies as a guiding point to ensure that all government incentives are consistent with the goals of the Paris Agreement. This could include setting an end-date for all subsidies and public finance for fossil fuels.

Introduction

Governments around the world have much to celebrate as the Paris Agreement enters into force today on 4 November 2016. Many commentators have said that the Agreement marks a turning point in the global fight against climate change, as it lays the foundations for immediate and long-term strategies and actions to prevent dangerous climate change, including through putting an end to fossil fuel subsidies.

Under the Paris Agreement, governments have committed to limiting global temperature rise to well below 2°C and pursuing efforts to limit this increase to 1.5°C. To meet this pledge, the vast majority of fossil fuels will need to remain in the ground, with all countries requiring a shift to energy systems that are fully clean (Muttitt, 2016).

There is a growing consensus that one crucial step governments must take to incentivise this energy transition and keep fossil fuels in the ground is to remove financial support and subsidies for fossil fuels. Alongside opportunities through the G20, Asia-Pacific Economic Cooperation (APEC) and the Sustainable Development Goals (SDGs), the Paris Agreement provides a number of pathways to support countries in their aim to phase out public finance and subsidies to coal, oil and gas (G20 Research Group, 2011; Sustainable Development Knowledge Platform, 2015; Office of the Press Secretary to Barack Obama, 2009). In this briefing, we set out some examples of those pathways and highlight how governments can pursue them as a means to transition away from fossil fuels.

1. Making financial flows work for the climate

Article 2.1c: ‘Making financial flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development’

Article 2.1c highlights one of the main objectives of the Paris Agreement: the global financial system – including that which is driven by government subsidies and public finance – must work for climate action and not against it. It is clear that to meet the climate objectives set out under the Paris Agreement, we will need to limit fossil fuel production and reduce fossil fuel consumption. Making the global financial system work for climate action and not against it requires ending all forms of government support to the production and consumption of fossil fuels.

2. Including fossil fuel subsidy reform in Nationally Determined Contributions (NDCs)

Part II [no. 17–20] of the accompanying decision to the Paris Agreement on national climate plans

This part of the decision highlights that a facilitative dialogue will take place in 2018. Such a dialogue presents an ideal opportunity for countries to review and scale up their proposed climate action plans, in the form of their Intended Nationally Determined Contributions (INDCs). These discussions should drive countries to implement measures and plans that further reduce greenhouse gas emissions, such as the removal of subsidies and public finance for fossil fuels.

The Global Subsidies Initiative (GSI) has identified 39 national climate plans (INDCs) that include fiscal instruments as a means of reducing greenhouse gas emissions, 13 references to fossil fuel subsidy reform and 13 references to carbon prices. These findings indicate the strong potential for fiscal policies and decisions to help ramp up mitigation action. Parties that have not already included such fiscal measures, encompassing fossil fuel subsidy reform, have the opportunity to do so and there are tools available that can be used to calculate the emission reduction potential from such measures (Terton et al., 2015).

3. Ensuring climate finance is a catalyst – not a barrier – to phasing out fossil fuels

Article 9.1: ‘Developed Parties shall provide financial resources to developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention’

Article 9.2: ‘Other Parties are encouraged to provide or continue to provide such support voluntarily’

Climate finance is crucial for catalysing the transition away from fossil fuels and towards low-carbon and climate resilient development. However, some donor countries and international financial institutions that are providing and mobilising climate finance under the UNFCCC are continuing to fund fossil fuel exploration, production and consumption.

In the absence of a definition for climate finance under the UNFCCC, there is potential for provision of fossil fuel subsidies to be presented as climate finance. A group of leading development finance institutions (including the World Bank) has established its own ‘common principles’ for climate finance. These allow support for efficient coal power and carbon capture and storage (including for enhanced oil recovery) to be counted as climate finance. Japan has further included loans towards the construction of coal-fired power plants in Indonesia in its climate finance tracking under the UNFCCC.

As a first step in ensuring the phase-out of fossil fuel subsidies through international finance, a large number of civil society organisations have called on the Green Climate Fund (GCF) to rule out the use of its funds for fossil fuel projects. In addition, the providers of development finance and international public finance are being guided by the Paris Agreement to shift their support away from fossil fuels and towards complementary measures such as national subsidy reform or local and community-based renewable energy. In order to deliver such measures, mobilised climate finance should be subject to robust criteria assessing the delivery of reductions in greenhouse gas emissions, along with scaled up support for climate adaptation.

Climate finance can also make a direct contribution to subsidy reform efforts as part of increased support to developing countries' climate plans. International support will be particularly important in terms of supporting countries in the development of suitable complementary measures for sectors and households that would be affected by an increase in energy prices as a result of fossil fuel subsidy reform. The High-level Advisory Group on Climate Change Financing has also emphasised that the elimination of fossil fuel subsidies in developed countries could in turn provide a valuable source of climate finance. Since this frees up domestic resources, this delivers finance that can be disbursed more rapidly than sources requiring significant international coordination (Whitley and van der Burg, 2015).

4. Increasing public awareness on and access to information on fossil fuel subsidies

Article 12: 'Parties shall cooperate in taking measures ... to enhance climate change education, training, public awareness, public participation and public access to information, recognizing the importance of these steps with respect to enhancing actions under this agreement'

While, in some countries, heated public debates about 'costly' renewable energy subsidies have emerged, there remains limited public awareness regarding the scale and scope of fossil fuel subsidies. Increased access to information and communication on such subsidies through the mechanisms of the Paris Agreement could support the necessary public participation to drive progress on fossil fuel subsidy reform. Governments should demonstrate how they are increasing awareness of the issue of fossil fuel subsidies among their citizens and related public and private sectors. Increased awareness and access to information should include clear, understandable and widely available information on measures such as direct government support, taxation, public finance and support for State Owned Enterprises in the fossil fuel industry.

5. Reporting on fossil fuel subsidy reform efforts in national communications, biennial reports and biennial update reports.

Article 13: Enhanced transparency framework for action and support

Countries can use the transparency arrangements under the UN Climate Convention to track progress on fossil fuel subsidy reform. This includes national communications, biennial reports and biennial update reports intended to cover policies and measures that Parties have undertaken to implement the agreement. Moreover, national and international cooperation could include a more formalised system for information-sharing and capacity-building set around good practices and lessons learned in phasing out domestic fossil fuel subsidies.

6. Tracking progress and raising ambition on fossil fuel subsidy reform as part of wider mitigation efforts in the global stock-take

Article 14 (global stocktake);

1) “... the Parties to the Paris Agreement shall periodically take stock of the implementation of this Agreement to assess the collective progress towards achieving the purpose of this Agreement and its long-term goals...”

3) “The outcome of the global stocktake shall inform Parties in updating and enhancing, in a nationally determined manner, their actions and support... as well as in enhancing international cooperation for climate action”

Efforts to shift investments and financial flows – through policy processes and decisions – should feature within the global stock-take and the broader scope of enhanced action. The global stock-take anchored in the Paris Agreement presents a clear incentive for governments to increase ambition to phase out fossil fuel subsidies. In order to bring forward constructive ideas on how subsidy phase-out can be achieved, governments should conduct more in-depth and expansive reviews of the national measures that facilitate or provide subsidies to fossil fuels. Such reviews should analyse subsidy measures, with a view to reforming them as a means to increasing overall climate ambition. National governments can also use the global stock-take to demonstrate their support for international cooperation on fossil fuel subsidy reform.

While governments need to take more responsibility for ending support for the production and consumption of fossil fuels, national and multilateral development banks also need to increase efforts to reduce and phase it out. They must set strong climate tests for development, along with infrastructure projects to ensure they are consistent with a 1.5°C pathway.

7. Including subsidy phase-out plans in long-term development strategies

Article 4, para 19: ‘All Parties should strive to formulate and communicate long-term low greenhouse gas emission development strategies...’

The development plans and investments crafted today will shape our societies and economies well into the future. It is thus crucial that those plans respect the need to limit global temperature rise, and provide for essential development needs. This paragraph in the Paris Agreement marks a guiding point to ensure that all such investments and decisions will serve this goal. When



developing long-term low greenhouse gas development strategies, countries should set an end-date for all subsidies and public finance for fossil fuels.

Conclusion

There is much to celebrate with the early entry into force of the Paris climate agreement, which sets a clear signal that we are nearing the end of the fossil fuel era. Nonetheless, after the celebrations, the real work will begin. Governments must now take the essential step of phasing out subsidies and public finance to harmful fossil fuels. By utilising the Paris Agreement as a clear framework for action on subsidies, it will be possible to achieve a sustainable transition to clean and low carbon energy systems. This will liberate resources to support wider social needs, as well as benefit our economies and natural environments.

The Paris Agreement can be found at

http://unfccc.int/files/meetings/paris_nov_2015/application/pdf/paris_agreement_english_.pdf

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