The problem

Inefficient fossil fuel subsidies:

• Encourage wasteful consumption
• Distort markets
• Impede investment in clean energy sources
• Undermine efforts to deal with climate change
How

• Reducing fossil fuel subsidies while preventing adverse impact on the poorest.
• Rationalize and phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption.
• While providing those in need with essential energy services, including through the use of targeted cash transfers and other appropriate mechanisms.
Who and When

• Energy and Finance Ministers, based on their national circumstances, shall develop implementation strategies and timeframes
• Report back to Leaders at the next Summit.
• International financial institutions to offer support to countries in this process.
• We call on all nations to adopt policies that will phase out such subsidies worldwide.
Why so difficult

• Widely accepted Paradigm:
  – Consumer subsidy is natural if production cost is low
  – Production subsidy is natural production cost is high
• Gainers of reform is a grey mass changing over time
• The losers' are easy to identify
• Lack of good governance and relevant mechanism
• Significant part are global benefits. (10% by 2050)
Some advise

• Paradigm has to be vigorously attacked.
• Prepare for the long hall. (Gradual implementation and readiness)
• Increase transparency.
  – Subsidies are often hidden.
  – Structure vs. level.
• Identify/prepare methods of compensation
  – Identify the losers
  – Identify the gainers
• Stay honest. Trust building is a must.
Another benefit

- Revenue collection is costly (direct and indirect taxes)
- 20% penalty applied
- Reduce subsidies coupled with reduced revenue collection is a win-win.
Increase international awareness

- Establish standardized reporting of all subsidies (OECD/IEA to create a G-20 program)
- Develop best practice guidelines
- Country reviews
- Recommendations