

**CTE 30 June 2014**

**Agenda item 2.1.2: 2.4 New Zealand report on key points from a recent roundtable on fossil fuel subsidy reform**

- Thank you, Chair. New Zealand is pleased in its own capacity to update the Committee on key points from a recent roundtable on fossil fuel subsidy reform.
- New Zealand recognises as a starting point that international reform of inefficient fossil fuel subsidies offers significant energy, environmental, fiscal, development and trade benefits.
- New Zealand is the coordinator of the Friends of Fossil Fuel Subsidy Reform, a small group of non-G20 countries (including developed and developing countries) that support G20 and APEC Leaders' commitments to rationalise phase-out of inefficient fossil fuel subsidies that encourage wasteful consumption. These commitments have been reaffirmed annually since 2009.
- Alongside New Zealand, the members of the Friends of Fossil Fuel Subsidy Reform are Costa Rica, Denmark, Ethiopia, Finland, Norway, Sweden and Switzerland.
- On 11 April 2014, the Friends of Fossil Fuel Subsidy Reform, the United States and the World Bank jointly hosted a Roundtable on fossil fuel subsidy reform in the margins of the World Bank/IMF Spring meetings.
- The event was an opportunity to support reform efforts by providing participants (including a range of representatives of G20 and APEC economies) with updates on peer review processes currently under way through the G20 and APEC; first-hand accounts from countries (Finland, Mexico, Indonesia and the Dominican Republic) about their experiences with reform; and updates from international organisations on the tools and initiatives available to support reform.
- The Roundtable began by assessing progress on peer review. The leadership of the parties who have volunteered for fossil fuel subsidy reform peer review, the US and China in the G20 and Peru and New Zealand in APEC, was acknowledged. Other countries were encouraged to consider playing a similar leadership role by volunteering for peer review.
- Peer reviews are useful mechanisms for encouraging transparency, sharing information and highlighting successes. They can therefore complement other transparency-based mechanisms including, for example, WTO Trade Policy Reviews and reporting under the Agreement on Subsidies and Countervailing Measures.
- Both the APEC and G20 peer review processes are voluntary and there is significant flexibility around scope. The review process is owned by the country that undergoes the review in terms of determining the scope and the composition of the reviewing team, as well as public release of the findings.
- Peer reviews can be a useful mechanism for developing tailored and well-designed pathways to reform. Efforts to assess and reform fossil fuel subsidies

were also highlighted at the Roundtable, drawing on the recent experiences of Finland, Mexico, Indonesia and the Dominican Republic.

- While there is no single way of undertaking reform, the Roundtable usefully highlighted a number of elements that successful reform efforts have in common, including:
  - being based on a firm understanding of the root causes of subsidies and their negative outcomes, as well as the domestic political context;
  - coordinated communication and awareness about the negative effects of subsidies, especially with respect to their regressive nature in that they accrue overwhelming to the rich rather than the poor;
  - clear timelines and adherence to them; and
  - gradual pace of reform as opposed to rapid price increases.
- The identified benefits of reform included:
  - removing a distortion that encourages wasteful overconsumption of fossil fuels, with attendant trade, development, environmental and climate change mitigation benefits;
  - government budget savings, and the ability to redistribute savings to targeted social assistance programmes and productive purposes such as alternative energy infrastructure development; and
  - improved intra-governmental communications and coordination in the implementation of reforms.
- The Roundtable concluded with a session on the efforts of donor governments and intergovernmental organisations to assist countries in implementing fossil fuel subsidy reform. These efforts are channelled through several different avenues including bilateral assistance to developing countries, advisory services provided by the World Bank's Energy Sector Management Assistance Program (ESMAP), a World Bank-led report on transitional policies to support the poor while phasing out inefficient fossil fuel subsidies, and data collection and analysis by the OECD, IEA and IMF.
- These initiatives recognise the political, social and economic challenges related to fossil fuel subsidy reform, and that reform is likely to be a long-term, progressive process. However, there is also mounting evidence that reforms can be successfully implemented when they are well-designed and tailored to meet the specific context. Transparency, information sharing and trust-building remains an important element in ensuring the success of international reform efforts.
- More information on the Roundtable, including a summary of proceedings and selected presentations are available on the Friends of Fossil Fuel Subsidy Reform website (<http://www.mfat.govt.nz/ffsr/tabs/events.php>).
- New Zealand will be circulating a copy of these points for the Committee's information. We would welcome any comments or questions.