Regional Experience:

Fossil Fuel Subsidy Reform and Green Recovery in Asia-Pacific Cities

[2021-22] International Mayors Forum

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26 January 2022
Outline

• Asia-Pacific is facing a series of crises throughout the 21st Century – pandemic, climate, economic, biodiversity.
• Removal of fossil fuel subsidies offers strong support for the region’s low carbon transformation.
• A green recovery from COVID-19 is needed to meet economic, sustainability and climate goals. Fossil fuel subsidy reform can assist this process.
1. Fossil Fuel Subsidies

- Rationalizing or phasing out fossil subsidies = enormous opportunity to increase fiscal space for COVID-19 recovery and set climate mitigation plans on track.
- Fossil fuel subsidies pervasive despite many years of advocacy and efforts to reduce them.
- Specific mention in Glasgow COP26 outcome.
- Now is the time for real progress.
Asia-Pacific fossil-fuel subsidies outweigh investment in renewables…

- Fossil fuel subsidies (in 2018): $240 billion
- Investment in renewable (in 2018): $150 billion
- Average annual investment needed to achieve affordable and clean energy: $434 billion
Fossil Fuel Subsidy Reform – challenges and considerations

Effects of fossil fuel subsidies:
- narrow fiscal space
- distort prices
- defer action on energy efficiency
- create a price differential with clean energy
- may benefit the rich more than the poor
- make climate action and energy transition more challenging

Unwinding fossil fuel subsidies requires managing:
- social impacts, social safety nets
- political tensions
- long term vs. short term planning
- energy access programmes
2. Building Forward Better: ____
Advantages of a green policy package
Building Forward Better – 3 components

Policy Scenarios to Build Forward Better in Asia and the Pacific

Dawn Holland and Vatcharin Sirimaneetham
ESCAP proposes a “Green development” policy package...

- Spending increases
- Carbon tax
- Fossil fuel price subsidies
Asia-Pacific’s fiscal response to COVID could have been greener
Economic & environmental benefits under a green development package

Potential output level

Government debt-to-GDP ratio

Carbon emissions

Air quality (PM2.5)

Percentage change

Ambitious Spending

Business-as-usual spending

Percentage point change

-60

-50

-40

-30

-20

-10

0

2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036 2037 2038 2039 2040

2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036 2037 2038 2039 2040

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Economic and Social Commission for Asia and the Pacific

ESCAP
Opportunities to decarbonize the economies …

- Remove fossil-fuel subsidies
- Adopt carbon pricing

Source: ESCAP, based on IMF (2021g)
ESCAP – supporting cities develop sustainable Energy Transition roadmaps

• Cities and subnational authorities key to the energy transition.
• ESCAP program to support countries develop SDG7 roadmaps has been expanded to cities.
• 6 city or province level roadmaps already developed, open to more partner cities in 2022.
• See https://www.unescap.org/projects/nexstep/cities
ESCAP – supporting cities develop sustainable Energy Transition roadmaps

4 aims: https://www.unescap.org/projects/nexstep/cities

- Facilitate the development of enabling policy measures at the sub-national level to achieve the sustainable energy transition, including SDG 7 targets, by 2030.

- Support cities to increase the share of renewable energy

- Assess the potential for decarbonization of the power sector by 2030 and/or net zero target by 2050

- Analyse financing mechanisms to close the investment gap and efficient allocation of resources by 2030.