



Phasing out fossil fuel subsidies:

Framework to categorize fossil fuel subsidies

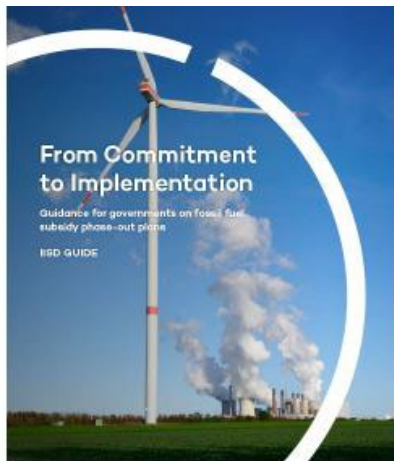
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Fossil fuel subsidy phase-out plans

Context

- COFFIS commitment (2023) → Members commit to develop national strategies
- G20 commitments (2009) → Members commit to phase out and rationalize over the medium term inefficient fossil fuel subsidies



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Fossil fuel subsidy phase-out plans

Lack of Systematic Action

- Core Issue:
 - Reforms are piecemeal and often reversed
 - No comprehensive sequencing and clear timeline
 - Fragmented institutional responsibility
- Initial attempts:
 - Criteria:
 - subsidies that can be phased out (i.e. production subsidies that increase fossil fuel supply) vs. subsidies that require reform (i.e. support for special groups)
 - (1) leakage effects and opportunities for new business, (2) distribution of burdens, and (3) legal options (e.g., whether a reduction path is in line with international treaties)
 - Broader phase-out commitments (based on monetary or emission related targets)
 - Principles and criteria:
 - gradualness (allowing appropriate timelines), compensation (to preserve competitiveness and employment), and simplification (eliminating minor or economically questionable subsidies)
 - Prohibitions and exemptions

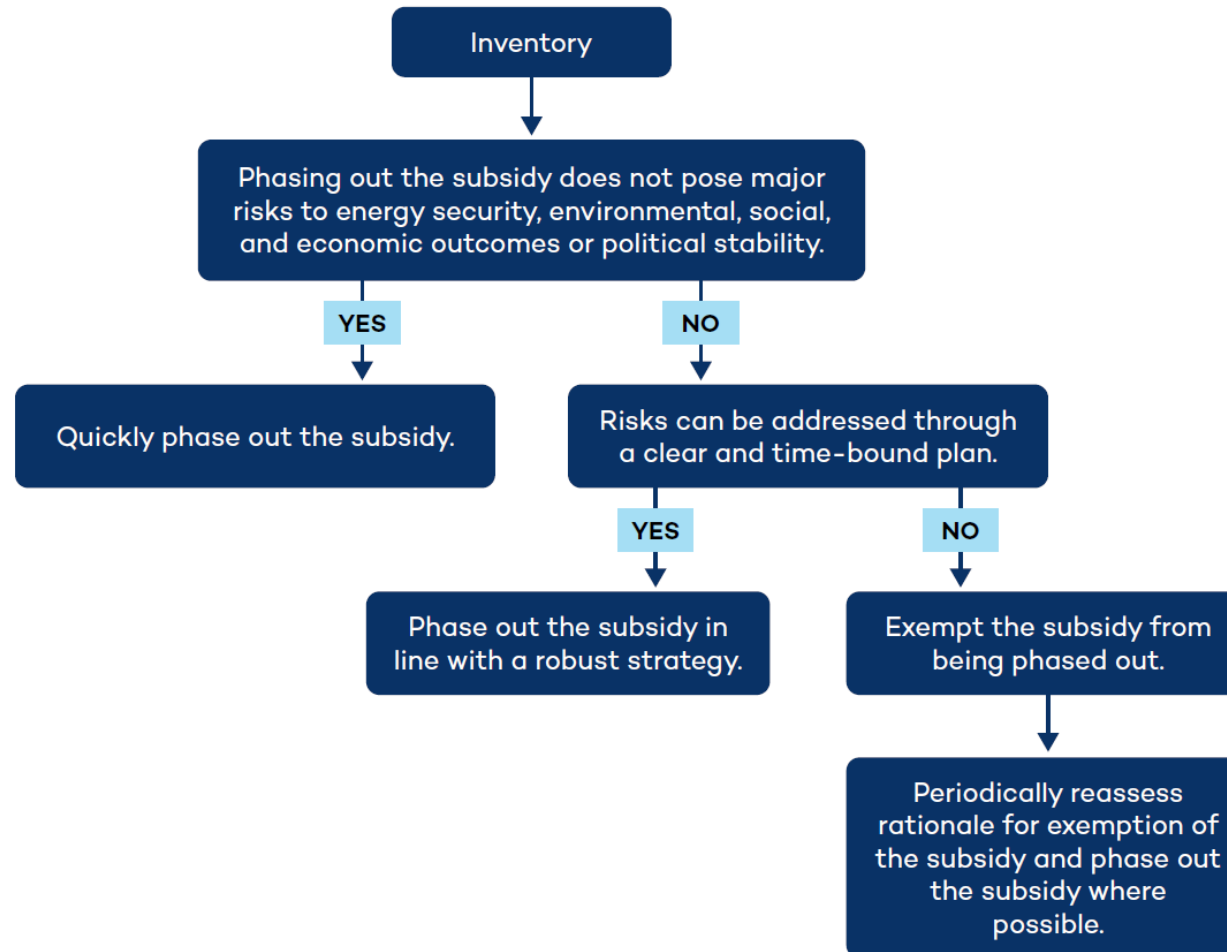
Categorization framework to phase out FFSs

Evaluation questions

1. **Energy security:** Does removing the subsidy risk undermine the reliability or affordability of current energy supply?
2. **Economic, social and environmental implications:** Does removing the subsidy significantly affect competitiveness, jobs, local communities, access to energy for vulnerable groups, or increase environmental risks?
3. **Political sensitivity:** Is reform of the subsidy likely to meet strong opposition from powerful affected interest groups or the general public?

Categorization framework to phase out FFSs

Decision tree of fossil fuel subsidy classification criteria



Categorization framework to phase out FFSs

Category 1: Quick Phase-Out

- Evaluation:
 - No major risks to be expected
- Typical Characteristics:
 - Low strategic importance
 - Benefit narrow constituencies
 - Support future fossil fuel use
 - Have indirect impacts and better-targeted support or other solutions already exist or can easily be provided
- Phase-out timeline:
 - Within 1 year (minor legal or administrative changes needed)

Categorization framework to phase out FFSs

Category 2: Phase-out with robust strategy

- Evaluation:
 - More significant risks; but phase-out possible upon strategy with robust planning, mitigation, and engagement
- Typical Characteristics:
 - Untargeted subsidies (private consumers)
 - Benefit specific constituencies with high-risk potential (mobilizing power, carbon leakage etc.)
 - Support existing production sites considered essential in fossil-fuel dependent regions
- Phase-out timeline:
 - Implementation can typically occur over 2 to 4 years
 - Sequencing reforms and tailoring timelines can help smooth distributional effects and reduce resistance.

Categorization framework to phase out FFSs

Category 3: Time-limited exemption from phase-out

- Evaluation:
 - Risks cannot be addressed through a clear and time-bound plan
- Typical Characteristics:
 - Narrowly targeted at vulnerable groups or those ensuring supply in remote areas
 - Post production, just transition and supply risks
- Principles:
 - All exemptions should be subject to clear safeguards: Concrete rationale for each exemption – exemptions apply only where viable non-fossil alternatives are currently unavailable or not feasible to scale
 - Clear needs assessments and adhere to the polluter-pays principle – subsidies are last resort, not default option
 - Time-bound, regularly reassessed, and paired with a long-term roadmap to address structural barriers

Categorization framework to phase out FFSs

Benefits

1. Ambitious planning
2. Quick wins and early momentum
3. Actionable and lasting implementation

Application of framework across five G20 countries

Figure 3. Share of assessed number of subsidy measures by category

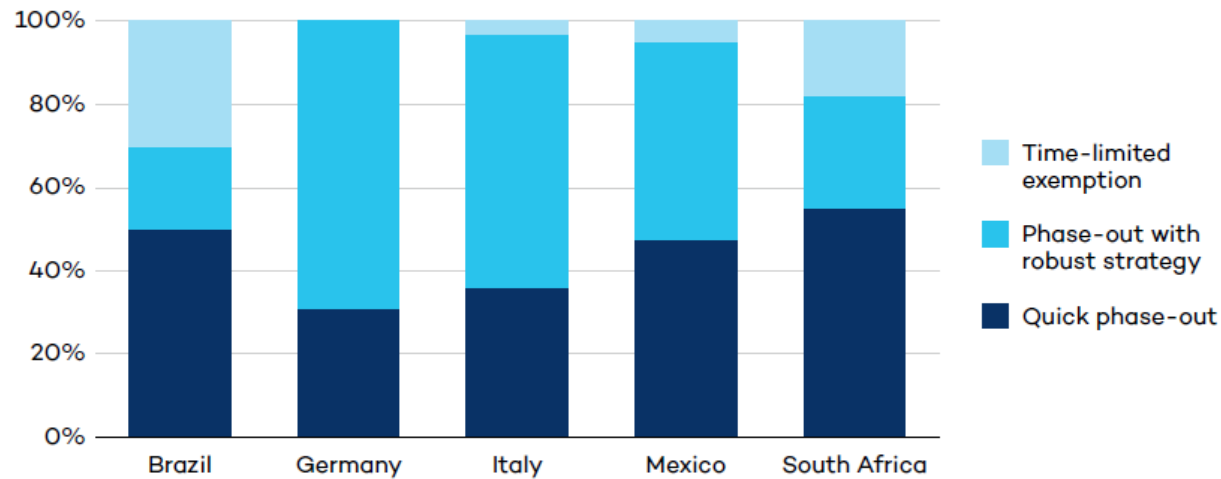
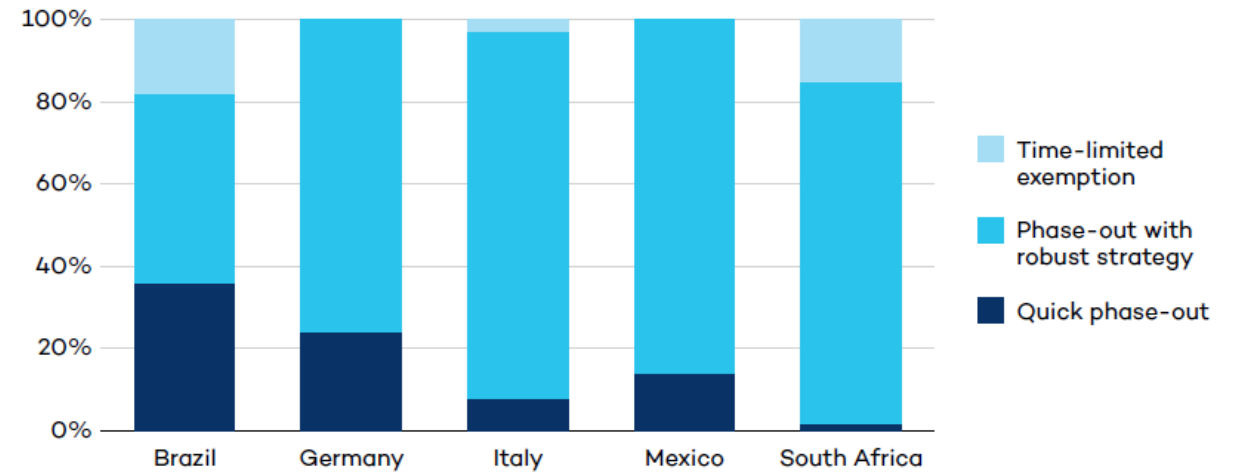
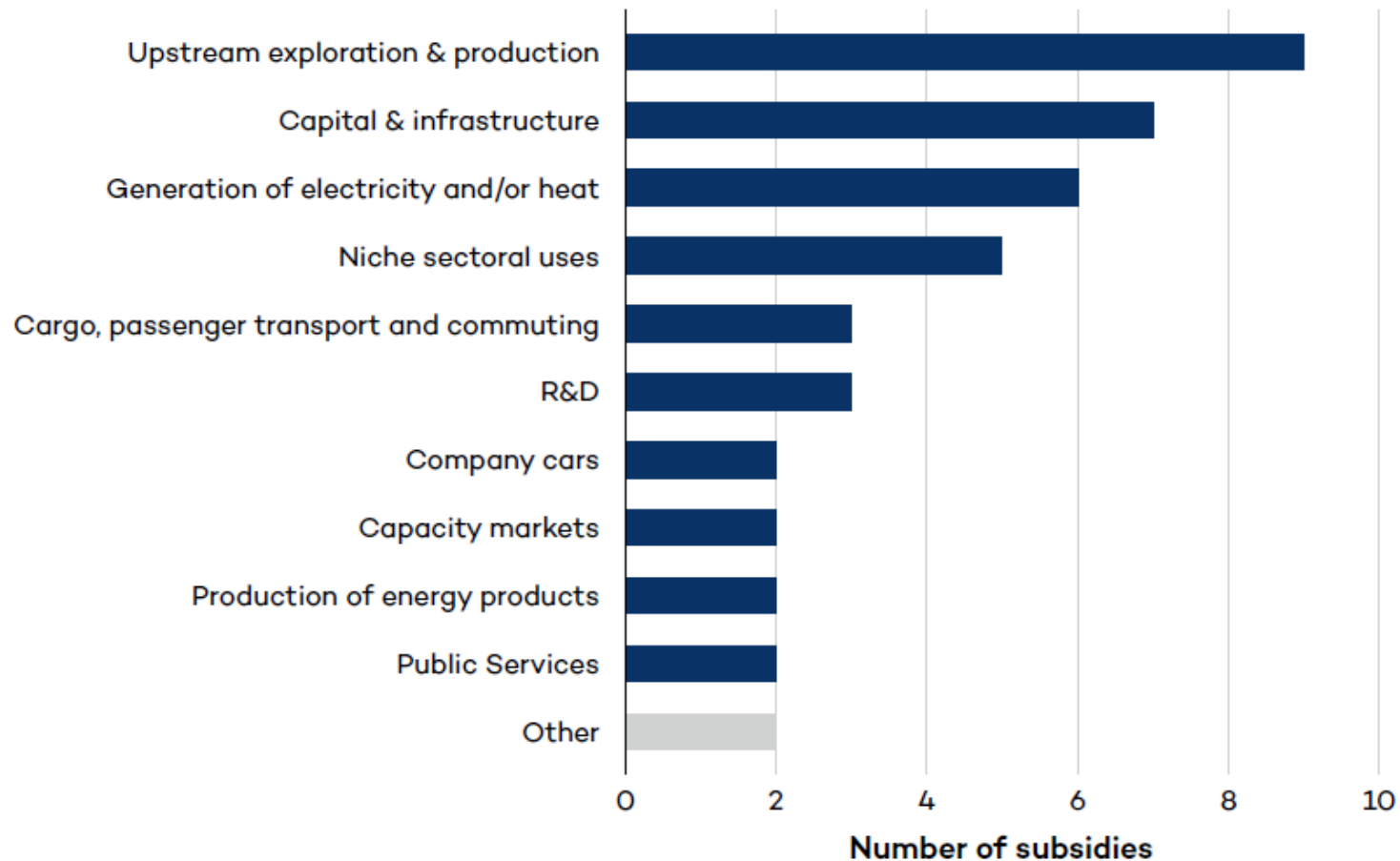


Figure 4. Share of fiscal value of assessed subsidies by category



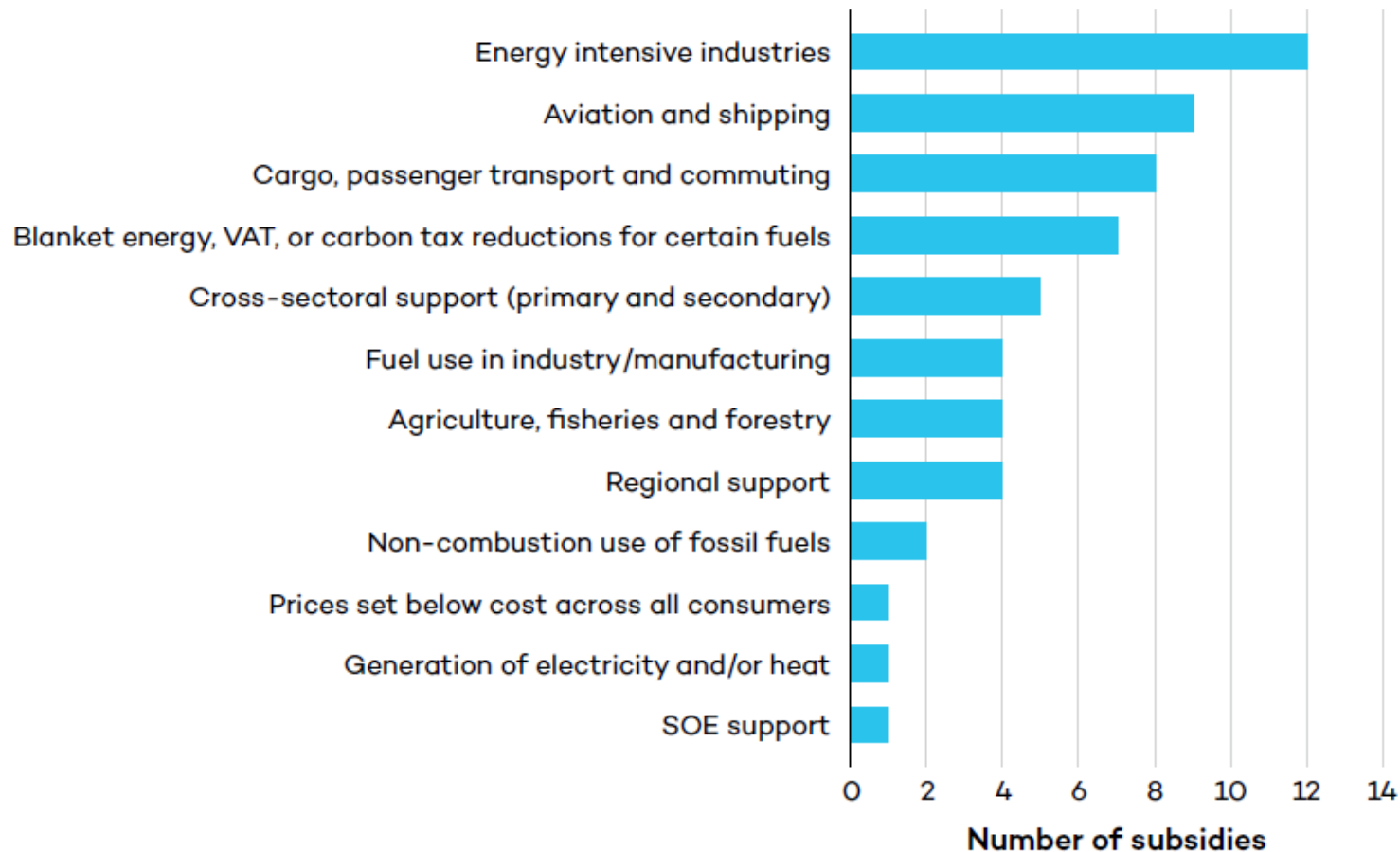
Application of framework across five G20 countries

Figure 5. Number of subsidies in the “quick phase-out” category, by type



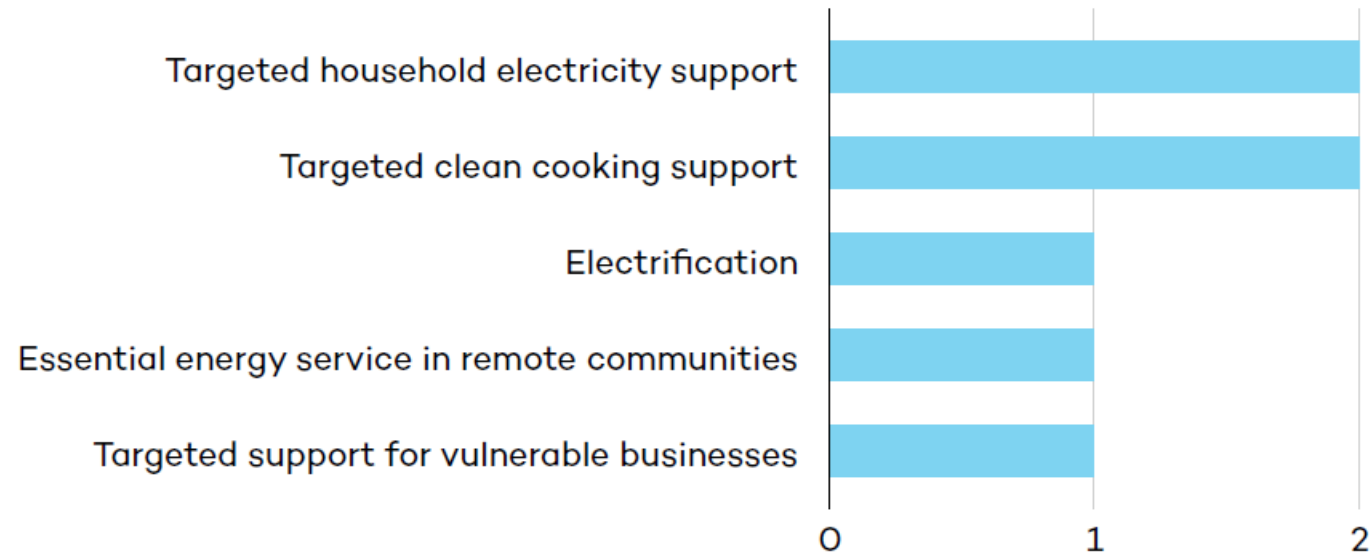
Application of framework across five G20 countries

Figure 6. Number of subsidies in the “phase-out with robust strategy” category, by type



Application of framework across five G20 countries

Figure 7. Number of subsidies in the “time-limited exemption” category, by type



Thank You!

For more information:

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