

## Foreword

At the risk of stating the obvious, it is clear that the world has not become a simpler place since Francis Fukuyama declared the end of history in 1989 (Fukuyama 1989). We are now in an era of increasing complexity, characterised by a potential unravelling of existing certainties. These certainties appeared for a time at least to include continued public support for globalisation in general and multilateralism in particular.

In terms of the specific subject of this book, the past decade has seen growing international interest in the reform of fossil fuel subsidies. This has manifested in high-flown rhetoric from G20 and Asia-Pacific Economic Cooperation (APEC) leaders, in groundbreaking work by the Organisation for Economic Co-operation and Development (OECD) and the International Energy Agency (IEA) and in the tentative steps taken by some particularly committed countries to advance the issue at the World Trade Organization (WTO). Underpinning all of this has been the far-sighted engagement on this issue by non-governmental organisations. First among equals in this space has been the Global Subsidies Initiative of the International Institute for Sustainable Development. Their work and their reputation for rigour and quality have made serious inroads into the political resistance to reform. Additional and valued support has come from the World Economic Forum's partnership with the International Centre for Trade and Sustainable Development, which, together with the Global Subsidies Initiative, has sought to explore the options for domestic and international reform in this space.

It is not difficult to understand the urgency of the challenge. In terms of the economics, the sheer scale of taxpayer support for fossil fuels is eye-popping. The IEA, for instance, has estimated that consumer subsidies alone are worth nearly half a trillion dollars per annum. Put differently, this is the equivalent of four times the level of OECD members' official development assistance. Subsidies to the fossil fuel industry are also distorting domestic policymaking. Some countries, for instance, are spending more per annum on such subsidies than on

healthcare or education. This is a situation that is clearly unsustainable in fiscal terms, let alone on the grounds of equity and human development.

The environmental benefit from reform is similarly clear. Global warming is widely understood to present an existential challenge. By some estimates, eliminating fossil fuel subsidies would decrease greenhouse gas emissions by up to 13 per cent by 2050 (Merrill et al. 2014). This is rather more than a clutch of countries can contribute, even if they stopped all emissions overnight. More particularly, ensuring that the externalities of fossil fuels (i.e. costs to society from air pollution and so on) are priced through the tax system could reduce carbon emissions by nearly 25 per cent (Parry et al. 2014). And thanks to the work of the OECD and the IEA, we know a great deal more about where and how subsidies are spent, including by whom. This groundbreaking work in the form of a time-series data set is proving invaluable for reformers.

The emergence of this kind of striking data has been complemented by rhetorical commitments to reform by G20 and APEC leaders. These statements suggest that there is a collective will to reform, at least over the medium term. At the same time, initiatives by non-G20 members, such as the Friends of Fossil Fuel Subsidy Reform – including Costa Rica, Denmark, Ethiopia, Finland, Sweden, Switzerland, New Zealand, Norway and Uruguay – were established to encourage the G20 and others to advance reform ambitiously and transparently. In 2015, further momentum was generated through another set of leader-level commitments enshrined in the United Nations' Sustainable Development Goals (SDGs). There was a growing assumption therefore in many countries that reform – meaningful reform – may be just around the corner.

Unfortunately, it appears that those easy – and perhaps in hindsight complacent – assumptions are misplaced. The politics of reform has simply proved too hard, at least at the international level, and the way ahead is unclear at best.

In fact, the challenge has sharpened. Oil prices continue to fluctuate, and there appears to be a growing expectation that globally there will be a realignment of thinking about fossil fuels and the impact they have on climate change. On the one hand, this may create the conditions for real reform. On the other hand, we need to be alert to what German economist Hans-Werner Sinn (2012) famously called the 'green paradox': the policy signal that fossil fuel use might be constrained in the future, including through the reform and elimination of subsidies, may provide a perverse incentive to fossil fuel producers to produce as much as they can while the going is good. There are certainly indications that this is precisely what has driven some of the recent expansion of oil production over the past three years.

But all is not lost. As this important book reveals, reform is not only desirable but also achievable. It can be secured through deft engagement and focus at the

regional and domestic levels. There is scope, too, for work multilaterally at various levels of ambition, as this book underscores.

In this regard, it is a truism that a robust and fair multilateral trading system hinges on coherence between domestic and international economic policy. The SDGs in this context need to be understood for what they are: not an irritating distraction from the so-called real work of trade negotiations, but an expression of public concern about global issues and challenges. They represent an opportunity to demonstrate to an increasingly sceptical international and domestic polity that the trade policy community can contribute to solutions. In other words, trade really does matter. International economic policy coherence remains a key value proposition and an enduring theme for this book. Set in the context of an emerging set of global and transboundary environmental challenges that pose profound economic and human development risks, policy coherence brings together the elements that will drive effective change policies.

Of particular interest to me as a trade negotiator has been how one might deploy trade disciplines to drive reform. After all, the WTO is the only international institution that has a dispute settlement mechanism with real teeth. Importantly, too, in these uncertain times, it is the only place where all the major economies are legally bound to certain commitments and disciplines. Expanding such disciplines to include fossil fuel subsidy reform seems like a no-brainer.

This book shows that we can and should do more to reinforce coherence and sustain public confidence in the benefits of trade disciplines. In this regard, the possible relationship between trade disciplines and fossil fuel subsidies is an area for active consideration and future negotiation. After all, as this book demonstrates, trade disciplines can correct distortions in global trade, help mitigate climate change, deliver development benefits and simultaneously assist countries in achieving SDG12 (ensuring sustainable consumption and production patterns). What's not to like about this kind of win-win-win-win solution? In any case, there is no escaping a sharp-edged question to policymakers: if trade is not part of the solution, how precisely will countries deliver on their leaders' commitments enunciated in the SDGs?

What is clear is that there is an urgent challenge confronting us. If we can 'crack the code' of the political economy of fossil fuel subsidy reform, the benefits – economic and environmental, not to mention for trade and public confidence – will be significant. In the meantime, reform must proceed on multiple fronts through public pressure, intergovernmental negotiation and, complementing this, a push for new, effective and enforceable trade disciplines.

This book therefore is a measurable contribution to enhancing our understanding of the key political obstacles countries face in reform at the domestic, regional and international levels. It also suggests ways in which we can proceed to meaningful

reform. That this will be politically difficult and technically a challenge is evident, but as the book makes clear, it is one we must tackle – and urgently. To adapt and paraphrase Schumpeter’s description of the role of entrepreneurs and apply it in this context: it really is time for us to act ‘with confidence beyond the range of familiar beacons and overcome resistance which requires aptitudes and persistence’ (Schumpeter 1942: 132). In short, the message at the heart of this important contribution to our understanding of the politics of fossil fuel subsidy reform is one of determination and hope, but certainly not of complacent expectation.

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### **Disclaimer**

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### **References**

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