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The Politics of Fossil Fuel Subsidies and Their Reform *An Introduction*

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1.1 Introduction

In September 2009, the leaders of 20 of the world's largest economies gathered at the Group of 20 (G20) summit in Pittsburgh and announced a surprise gift for those demanding more concerted global action to fight environmental problems: a commitment to 'phase out and rationalize over the medium term inefficient fossil fuel subsidies' (G20 2009). At the time, fossil fuel subsidies were still a marginal subject on the international political agenda. Although a small but growing number of experts from governments, international organisations, non-governmental organisations (NGOs) and academia had started to discuss the challenge (e.g. Larsen and Shah 1992; Anderson and McKibben 2000; Koplow and Dernbach 2001), references to the hundreds of billions of dollars channelled to fossil fuels were almost non-existent in the public discourse.

Fast-forward to 2015, and fossil fuel subsidies were making headlines across the world. The International Monetary Fund's (IMF) estimated that global fossil fuel subsidies totalled a staggering USD 5.3 trillion (Coady et al. 2015b), predictably drawing lots of public attention (Carrington 2015). At the national level, too, the actions by governments – or the lack thereof – started to enter the spotlight. For instance, the Indian government set out to reduce all subsidies from 2 to 1 per cent of gross domestic product (GDP) by 2020, starting with fuel subsidies (New Indian Express 2015). Elsewhere in the world, the British government faced widespread criticism for adopting new tax breaks for oil and gas exploration (Jowit 2015). Fossil fuel subsidies became a part of the mainstream political agenda, as was underscored when more than 40 countries – along with a range of international, business and nongovernmental organisations – committed to a communiqué to eliminate fossil fuel subsidies at the margins of the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC).

Notwithstanding the heightened attention, governments in industrialised and developing countries continue to provide budget transfers, tax breaks, economic guarantees and specific goods and services to aid the production and consumption of fossil fuels. By any measure, this support is sizeable. The IMF's estimate stands out because of their inclusion of the non-pricing of environmental and social externalities. But more conservative estimates are also huge. The International Energy Agency (IEA), for instance, estimates that global fossil fuel subsidies amounted to USD 325 billion in 2015 (IEA 2016: 99). Although that was a decline from nearly USD 500 billion in 2014 – mainly due to falling oil prices – it is still significant. To put these figures into perspective, global levels of official development aid in 2016 were USD 142 billion (OECD 2017); industrialised countries have pledged to mobilise USD 100 billion of climate finance per year by 2020 to support developing countries (UNFCCC 2010); and South Africa's GDP in 2016 was USD 295 billion.

Fossil fuel subsidies persist across the world, in spite of efforts to reform them and mounting evidence of the environmental and economic benefits of doing so. Many countries – from Germany to Nigeria, from Canada to Indonesia, from Mexico to the United Arab Emirates – have sought to at least partially remove the subsidies provided to fossil fuels (Whitley and van der Burg 2015; Rentschler and Bazilian 2017a; Sovacool 2017). The benefits of reform are clear: removing fossil fuel subsidies would allow governments to make significant cost savings, and could yield significant environmental benefits. For example, removing fossil fuel subsidies in 37 (mainly developing, major emitting) countries between 2013 and 2020 would reduce global greenhouse gas emissions by 8 per cent by 2050, according to one estimate (Burniaux and Château 2014).

Notwithstanding the broad agreement among expert communities about the benefits of reforming fossil fuel subsidies and the high-level commitments to do so, the level of concerted political action is still low. By 'concerted political action', we refer to action by the most relevant actors to promote fossil fuel subsidy reform on the basis of prior coordination or communication (see also Holzinger and Knill 2005). This observation holds for both the domestic and the international levels. While domestic reform has taken place in some countries, other countries have either not succeeded in their reform attempts or have not even attempted such reform. And while some international institutions have taken up fossil fuel subsidies within their remit, governance activity in other institutions has been conspicuously absent (Van de Graaf and van Asselt 2017). The variation in the degree of effort to reform fossil fuel subsidies between countries and between different international institutions means that the level of concerted political action is low both within and between the two levels.

We argue that this low level of concerted action is puzzling given the expert consensus on the benefits of reform and existing high-level commitments and that this puzzle points to the importance of the *political dimensions* of fossil fuel subsidies. While they undoubtedly matter, economic factors alone (e.g. fluctuating oil prices; see Clements et al. 2013) cannot explain why and how some countries have put in place fossil fuel subsidies, why they are maintained, and why – in some cases – they are successfully reformed.

We further hold that political factors can help explain why some international institutions have taken up the cause of fossil fuel subsidy reform and why others have remained silent; they can also help explain the causal mechanisms through which institutions seek to promote reform at the international and national levels. In this book, in short, we argue that it is useful to study fossil fuel subsidies and their reform as *political phenomena*.

We can provide a better understanding of why and how fossil fuel subsidy reform can succeed by uncovering the interests, strategies and power of various actors and institutions (both in favour of and opposed to subsidy reform), as well as the norms, ideas and belief systems underpinning subsidies or efforts to reform them, and the socio-political characteristics of a particular country. The aim of this book, therefore, is to provide insights – underpinned by theory and based on a variety of case studies – into the domestic and international political factors driving fossil fuel subsidies and their reform. Specifically, this book seeks to uncover (1) why, how and with what effects international institutions and actors address fossil fuel subsidies – and why, in some cases, they do not; and (2) why and how fossil fuel subsidies are maintained or reformed on the domestic level. By answering these two questions, we seek to understand why concerted political action on fossil fuel subsidy reform is limited.

The book accomplishes this by bringing together a collection of chapters that span domestic and international levels. A common analytical framework outlining different factors influencing the politics of fossil fuel subsidy reform (presented in this chapter) guides the authors in their analyses, allowing for a more comprehensive and systematic analysis than provided in previous literature on the politics of fossil fuel subsidies. Among others, the contributions cover definitional and structural challenges, case studies of countries that have and have not undertaken successful reform and analyses of international institutions and actors that have and have not started to address fossil fuel subsidies. Several chapters address the influence of international factors on domestic reform, linking the two levels.

This introductory chapter proceeds with a discussion of the existing literature on the politics of fossil fuel subsidies, which offers a foundation for the work presented in this book. Next, we present the analytical framework guiding the

chapters in this book. The chapter concludes with an overview of the contributions to the book.

1.2 The Politics of Fossil Fuel Subsidies and Their Reform: State of the Art

Despite the significant political contestations surrounding fossil fuel subsidies and their reform, the literature – especially academic works – on the political dimensions of subsidies and their reform is surprisingly sparse. This is not to say that fossil fuel subsidies have evaded the literature altogether. Indeed, analyses abound on the macro-economic effects of fossil fuel subsidies (e.g. Oosterhuis and Umpfenbach 2014; Coady et al. 2015b, 2017), the distributional consequences of subsidies (Arze del Granado and Coady 2012; Coady et al. 2015a) and environmental implications, including subsidies' effects on carbon dioxide emissions (Burniaux and Château 2014; Schwanitz et al. 2014; Mundaca 2017) and the possibilities for redirecting the savings from reform to climate change mitigation (Jakob and Hilaire 2015; Matsuo and Schmidt 2017). Moreover, recent scholarship has started to investigate the political dimensions of fossil fuel subsidies.

Roughly, we can identify three strands of research relating to the politics of fossil fuel subsidies. The first consists of overviews on the issue, mainly on the basis of literature reviews and often focusing on strategies for reform rather than on explanations for the existence of fossil fuel subsidies (Victor 2009; Commander 2012; Strand 2013; van Asselt and Skovgaard 2016; Rentschler and Bazilian 2017a; Rentschler and Bazilian 2017b; Sovacool 2017). Much of this literature consists of policy reports by NGOs aimed at providing advice to stakeholders interested in reform (e.g. Beaton et al. 2013; Merrill et al. 2015; Whitley and van der Burg 2015), including lessons from single-case studies on attempts at reform (Beaton and Lontoh 2010; IISD 2014). Thus, while this strand is characterised by an interest in the politics of fossil fuel subsidy reform, it includes relatively few attempts to develop analytical frameworks that could form the basis of systematic case studies (but see Rentschler and Bazilian 2017a). We argue that such systematic approaches can make it easier to draw lessons from several cases and gauge the respective influence of different factors.

A second strand of research seeks to do just this by explaining the existence and level of fossil fuel subsidies through comparative and quantitative studies (Overland 2010; Cheon et al. 2013, 2015; Benes et al. 2015; Kim and Urpelainen 2015; Inchauste and Victor 2016; Ross et al. 2017). These existing studies tend to focus on consumption subsidies – particularly to petroleum products (e.g. petrol, kerosene) in developing countries – and pay less attention to other kinds of

subsidies. While the quantitative studies have focused on the level of fossil fuel subsidies as the dependent variable (Cheon et al. 2013, 2015; Kim and Urpelainen 2015), the comparative case studies have focused on a limited set of country cases that differ on the dependent variable, namely successful reform (Overland 2010; Inchauste and Victor 2016).

In spite of their differences in approach, the first two strands have identified a largely overlapping set of factors influencing fossil fuel subsidies and the possibilities for reforming them. Several of these factors operate in the intersection between the political and economic spheres (Inchauste and Victor 2016). Furthermore, the focus tends to be on structural factors. Among the analyses more attuned to the role of specific actors, Victor (2009) distinguishes between demand and supply factors influencing fossil fuel subsidies. The former concern the demand for subsidies from special interest groups, including both producers and consumers of fossil fuels. These special interest groups seek rents (in the form of subsidies) at the expense of the general welfare, i.e. the state budget (Victor 2009; Inchauste and Victor 2016). Key to this behaviour is the nature of fossil fuel subsidies as simultaneously a visible and specific benefit to these groups and an invisible and diffuse cost to the general public (Victor 2009; Inchauste and Victor 2016). The supply factors concern why governments choose to supply the subsidy rather than employ other policy instruments, which according to Victor (2009) is due particularly to the nature of fossil fuel subsidies as a visible and – in fossil fuel-exporting countries – easily available instrument. Related to this, Cheon et al. (2015) identify the presence of state-owned national oil companies as a factor influencing the level of fossil fuel subsidies.

When it comes to more structural factors, scholars have focused on the role of fossil fuel reserves and global fossil fuel prices in influencing the level of fossil fuel subsidies and the possibilities for reform (Overland 2010; Benes et al. 2015; Kojima and Koplow 2015; Rentschler and Bazilian 2017b). Other structural factors include institutional or governance capacity (Commander 2012; Cheon et al. 2013), the kind of state providing the subsidies (including how decentralised political power is; see Lockwood 2015), whether the political system is democratic or authoritarian (Overland 2010; Kim and Urpelainen 2015) and path dependency, which can make it difficult to remove fossil fuel subsidies once they are in place (Victor 2009; Lockwood 2015). The findings from this body of literature indicate that countries with weak institutional capacity, authoritarian rule, and significant fossil fuel reserves are more likely to subsidise fossil fuels.

A third strand has examined the politics of fossil fuel subsidies at the international level, including the efforts to promote fossil fuel subsidy reform (Besada and

Olender 2015; Van de Graaf and van Asselt 2017). Some have focused on the question of how international institutions influence reform at the domestic level. Smith and Urpelainen (2017) examine the voluntary commitments adopted under the G20 and Asia-Pacific Economic Cooperation (APEC) and explain how the reputational costs of flouting these commitments may drive countries to stick with planned reforms. Similarly, Aldy (2017) argues that the G20 commitment and review of fossil fuel subsidies can help overcome domestic opposition to fossil fuel subsidy reform by providing legitimacy and facilitating learning between countries. Other studies have focused on the interplay between international institutions addressing fossil fuel subsidies. In this regard, Skovgaard (2017) reveals how competing definitions of fossil fuel subsidies within the IMF and the Organisation for Economic Co-operation and Development (OECD) came about. A further question that has been addressed is why some international institutions have *not* addressed fossil fuel subsidies. Scholars of international relations and international law have been particularly vexed by the fact that fossil fuel subsidies have largely escaped the scrutiny of the World Trade Organization (WTO) – particularly when compared to renewable energy subsidies, several of which have been subject to legal challenges (Asmelash 2015; Wold et al. 2015; De Bièvre et al. 2017; Meyer 2017).

While the existing literature has thus provided valuable insights into the politics of fossil fuel subsidies, we believe that a comprehensive collection of scholarly analyses of the politics of fossil fuel subsidies, bridging the international and domestic levels, is both timely and useful.

1.3 An Analytical Framework for Understanding the Politics of Fossil Fuel Subsidies

As discussed earlier, the academic literature identifies different factors that determine how the politics of fossil fuel subsidies at the international and domestic level influence the eventual outcome of maintaining or reforming subsidies. In the analytical framework presented in this section, we distinguish a set of broad political factors at each level. The factors may influence fossil fuel subsidies and their reform at different stages of the policy cycle, including agenda-setting, policy formulation and, ultimately, (successful) implementation. To identify the various factors, we draw on social science fields and disciplines such as political economy, public policy and international relations.

Although both the domestic and international levels matter for our analysis, the political dynamics at each level are different. A key aspect of this difference is that fossil fuel subsidies are ultimately adopted and discontinued at the domestic level.

The difference in political dynamics is evident: at the international level, there is an emerging consensus that fossil fuel subsidies should be reformed, whereas the domestic level is characterised by varying degrees of obstacles to, and support for, such reform. Consequently, at the domestic level we will focus on political factors that either hinder or promote fossil fuel subsidy reform. At the international level we will focus on the ways in which international institutions and actors address fossil fuel subsidies and how they influence the domestic level, including cases in which international institutions and actors give diverging signals and the absence of a signal from some institutions. We employ the distinction between the international and domestic levels in the analytical framework outlined below, as well as in the organisation of this book.

1.3.1 The International Level

Two sets of political dynamics can be distinguished with regard to fossil fuel subsidies and their reform at the international level. A first set of dynamics concerns the ways in which – and reasons why – different kinds of international institutions and actors have started to address fossil fuel subsidy reform or, in some cases, why they failed to do so. International efforts to tackle fossil fuel subsidy reform can be traced back to a (growing) number of international organisations (e.g. the IEA, IMF and OECD) and countries (mostly acting through forums such as the G20, APEC and the Friends of Fossil Fuel Subsidy Reform). We are interested in how and why these organisations and country groupings have begun to address fossil fuel subsidies. Similarly, we are interested in why other institutions, particularly the WTO and the UNFCCC, have largely refrained from addressing them. The absence of any effort from an international institution can in itself form an obstacle to promoting fossil fuel subsidy reform, since domestic actors opposed to reform can point to the inactivity of these institutions. The relevant institutions range from international organisations addressing economic, development and environmental issues to clubs of powerful – and less powerful – countries to NGOs.

We identify four broad and interdependent political factors that help explain whether and how international institutions address fossil fuel subsidies. The first factor concerns the role of *individual actors* within the institutions, be they individual employees or member states seeking to influence the institution's stance on fossil fuel subsidies (see also Skovgaard 2017). Such actors include – but are not limited to – policy entrepreneurs that invest financial, material and reputational resources to bring about policy change (Kingdon 2003: 122–24), as well as norm entrepreneurs articulating and promoting new norms (Finnemore and Sikkink 1998: 896–99), including the norm of fossil fuel subsidy reform.

The second factor is the *constellation of member state interests* (Sprinz and Vaahtoranta 1994). Which states participate in an institution matters a lot in this respect, especially in institutions that allow a single member state to block decisions (since the inclusion of one state opposed to fossil fuel subsidy reform could veto a decision). According to this perspective, fossil fuel exporters are generally expected to oppose promoting fossil fuel subsidy reform at the international level (since it would lower global demand for their fuel exports). Third, *ideational* factors include how fossil fuel subsidies and the norm of fossil fuel subsidy reform are framed and whether these framings ‘fit’ with the prevalent ideational structures and objectives of particular institutions (Johnstone 2001). Fossil fuel subsidies can be framed in terms of their environmental or economic consequences, among others, and one would expect economic framings to resonate better with economic institutions and environmental framings to resonate better with environmental institutions. Finally, *interaction with other institutions* (Oberthür and Stokke 2011) may influence whether and how an institution addresses fossil fuel subsidies. A concrete example would be the G20 tasking the IEA, the OECD, the Organization of the Petroleum Exporting Countries (OPEC) and the World Bank with analysing the magnitude and consequences of fossil fuel subsidies.

A separate set of dynamics concerns the degree to which – and the pathways through which – international actors and institutions exert influence on fossil fuel subsidy reform at the domestic level. We identify three causal pathways that may be relevant to fossil fuel subsidies, drawing from the literature on the influence of the international level on domestic politics (Dobbin et al. 2007; Bernstein and Cashore 2012). First, there is the functional-rationalist pathway of international actors and institutions affecting domestic politics by *increasing the incentives* for complying with the institution (Keohane 1984). For example, actors and institutions may provide resources for compensating those affected negatively by fossil fuel subsidy reform or increase the reputational costs of non-compliance with international commitments. A second pathway is *coercion*, through which external restraints are placed on domestic actors (Hurd 1999), for example, through the threat of sanctions (e.g. potentially the WTO) or conditionalities (e.g. the IMF or World Bank). Third, through an *ideational* pathway, international actors and institutions can affect the norms and ideas that shape how domestic actors perceive an issue (Finnemore and Sikkink 1998), for instance, by promoting the norm that fossil fuel subsidies should be reformed. Besides the dissemination of norms, this pathway also covers learning – or the dissemination of knowledge on the ‘best’ way to achieve an objective based on the experiences of other actors (Dobbin et al. 2007: 460) – such as reforming fossil fuel subsidies in a way that avoids public protests.

1.3.2 The Domestic Level

We distinguish three broad and interdependent political factors that influence fossil fuel subsidies and their reform at the domestic level. The first factor focuses on the *interests, strategies and organisation of actors* – including both individuals and organisations – that have sought to promote reform of fossil fuel subsidies or to keep them in place (cf. Sabatier and Weible 2014). As was the case at the international level, these actors include – but are not limited to – policy and norm entrepreneurs. Regarding strategies, such actors may have actively sought to put fossil fuel subsidies on the national political agenda or instead thwarted such agenda-setting efforts, framed particular measures as fossil fuel subsidies with economic or environmental costs or as poverty-reduction or competition policies with economic benefits, built alliances and coalitions to promote or counter reform and communicated the benefits of fossil fuel subsidies or their reform to policymakers and the public. Rapid changes to other factors, such as oil prices, may offer windows of opportunity for these actors, since the timing of any significant policy change may be crucial to its chances of reform (Kingdon 2003). Regarding organisation, as Victor (2009) underscores, the level of subsidies in a country (especially for fossil fuel production) is influenced by how well-organised the interest groups benefiting from these subsidies are. These interest groups may coalesce around the subsidies, making it difficult to get rid of those subsidies. The organisation of actors opposed to fossil fuel subsidies is also important; although they tend to be less organised into institutionalised interest groups than the actors supporting subsidies, alliances cutting across different political parties, ministries and NGOs may have an important influence on fossil fuel subsidy reform. A key aspect of this factor is that the benefits of maintaining fossil fuel subsidies tend to be visible and concentrated on specific groups (e.g. fossil fuel producers and recipients of consumer subsidies, such as car owners), whereas the benefits of fossil fuel subsidy reform are often less tangible and more diffuse across time and space (e.g. improved fiscal balances and environmental improvements benefiting the population as a whole, including future generations).

Third, ideational factors, such as the knowledge, ideas, norms and beliefs guiding different actors (Jenkins-Smith et al. 2014), can have an influence on subsidy reform. At the domestic level, a recurring issue has been the question of whether a given policy or measure is defined as a fossil fuel subsidy, with opponents claiming that the support constitutes a subsidy and proponents arguing that it does not. New knowledge about fossil fuel subsidies, particularly about their environmental and socio-economic effects, can also be an important factor in the discussions concerning fossil fuel subsidies. Likewise, discourses linking fossil

fuel subsidies to growth, development and competitiveness may be influential. Ideational factors may closely interact with political dynamics at the international level; for instance, the norm of fossil fuel subsidy reform promulgated at the international level could be taken up and promoted by domestic norm entrepreneurs (see above).

Lastly, structural factors, particularly the broader socio-political characteristics of a country, may influence fossil fuel subsidies and their reform. These factors are all unlikely to change in the short to medium term and are more difficult to change. They include a state's governance capacity, structural power relations, and macro-economic factors – characteristics that (often in combination) may lead to the lock-in of fossil fuel subsidies. Governments with a low governance capacity tend to subsidise fossil fuels because they lack the capacity to implement other, more complex welfare policy instruments such as cash transfers (Victor 2009; Commander 2012; Cheon et al. 2013; Lockwood 2015). In such situations, fossil fuel subsidies can become an important part of the social contract between the government and the population. Fossil fuel subsidies can also be embedded in structural power relations that support certain kinds of activities (fossil fuel production and consumption) that are defined as integral to the economy. Doing so can reinforce and further entrench such power relations by empowering particular actors (private companies) or favouring activities (fossil fuel extraction) over others. These socio-political characteristics are often intertwined with macro-economic factors such as the level of income or growth, income inequalities and the composition of the national economy, especially the economy's degree of dependence on fossil fuels (i.e. the extent to which a country's economy is diversified). While this book does not focus on macro-economic factors alone, we believe that including macro-economic factors among the other political factors outlined in this framework can provide a useful contribution. Several of these characteristics may contribute to locking in fossil fuel subsidies in countries, for instance, by creating constituencies that seek to maintain subsidies and keep the country on a fossil fuel-intensive pathway (Victor 2009). Such possible feedback loops – in which fossil fuel subsidies strengthen the factors that keep them in place – are important factors worth exploring further.

1.4 Plan of This Book

The main body of this book comprises three parts, in addition to this introductory chapter and our conclusions. Part II outlines the scope of the problem of fossil fuel subsidies and the challenge of reforming them. The chapters in this part set the stage for the rest of the book by discussing key issues that are important to fossil