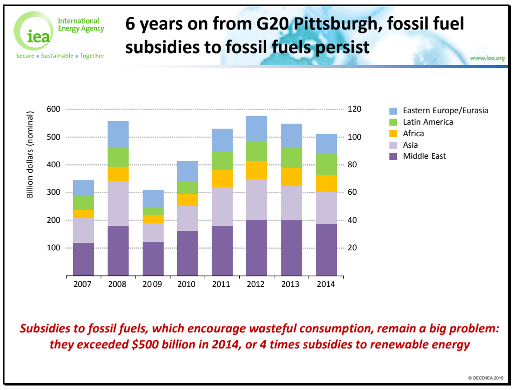
Minister Helveg Petersen, Secretary Moniz, Ladies and Gentlemen,

It is a pleasure for me to be here and provide a brief overview on recent trends and developments in fossil fuel subsidy reform globally. I would like to thank the Governments of US and Denmark for the kind invitation.



As you are all aware, world leaders gathered in Pittsburgh for the Group of 20 summit in 2009 agreed to phase out fossil fuel subsidies over time. They did not, however, include a specific timetable for the phase-out.

Six years on from G20 Pittsburgh, subsidies to fossil fuels remain stubbornly persistent.

And, indeed, these subsidies are extremely high. The exact value depends on whom you ask and how these subsidies are defined. Just last week, the IMF said fossil-fuel subsidies cost the world more than USD 5 trillion each year. Of course, the IMF uses a definition of fossil-fuel subsidies that includes what economists refer to as externalities. The IEA only tracks subsidies for the consumption of fossil fuels. We look at fuels priced under international supply costs, and we leave out externalities.

Consequently, our estimate of the value of fossil-fuel subsidies is considerably lower than that of the IMF. We estimate that the value of subsidies to the consumption of fossil fuels exceeded USD 500 billion globally in 2014, or more than four time subsidies to renewable energy.

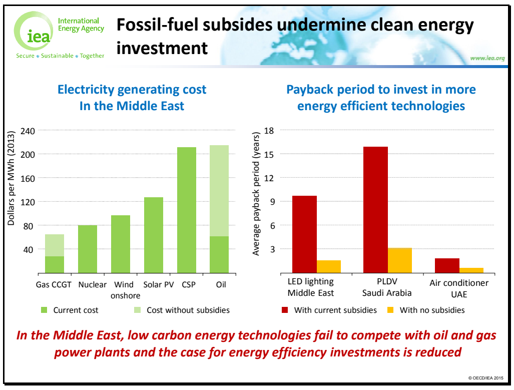
Globally, fossil-fuel subsidies fell in 2014, continuing the trend seen in 2013, in line with lower international prices and policy reforms in a number of countries.

Intuitively, subsidies should continue to fall in 2015 given the further decline in international energy prices.

After an extensive survey, 40 countries have been identified as subsidising fossil-fuel consumption. In total, they account for over half of world energy consumption.

The value of subsidies as a share of total GDP of these countries averages 5%.

Ten countries account for almost three-quarters of the world total; five of them are in the Middle East or North Africa. Most of the leading subsidisers are important hydrocarbon producers.



One of the most damaging effects of subsidising fossil fuels is on clean energy investment, and I understand Secretary Moniz will go into further detail on this.

Let me just highlight two key examples of this: In the Middle East, more than one-third of electricity is generated using subsidised oil, absorbing nearly 2 mb/d. In the absence of subsidies, all of the main renewable energy technologies, as well as nuclear power, would generally be competitive with oil-fired plants in the Middle East.

Gasoline prices in Saudi Arabia are currently less than one-tenth of the average price in Europe, so it takes around 16 years to recoup the cost of upgrading from a vehicle with average fuel economy to one that uses half as much fuel per kilometre. The removal of Saudi gasoline subsidies would cut the payback period to just three years.

Selected reforms to fossil fuel subsidy programs since 2014

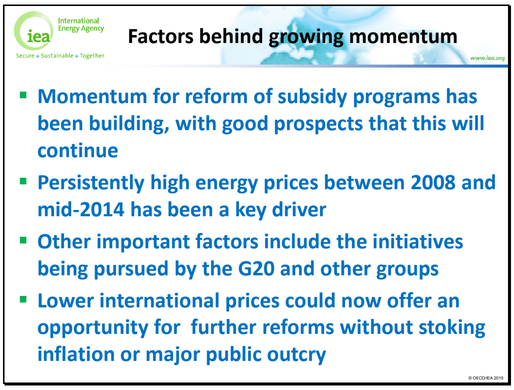
Fuel	Abolished subsidies	Reduced subsidies
Gasoline	Ghana, Indonesia, Malaysia, Morocco	Angola, Egypt, Iran, Mexico, Nepal, Sudan, Yemen
Diesel	Ghana, India, Malaysia, Morocco	Angola, Bangladesh, Egypt, Indonesia, Mexico, Nepal, Sudan, Uzbekistan, Yemen
LPG	Thailand	Argentina, India, Sudan
Other oil products	Morocco	Bangladesh, Egypt, Nepal
Natural gas		Argentina, Bahrain, Egypt, Malaysia, Nigeria, Oman, Thailand, Turkmenistan, Ukraine
Electricity		Bangladesh, Ecuador, Egypt, Indonesia, Jordan, Malaysia, Myanmar, UAE (Abu Dhabi)

The good news is that momentum has been building behind reforms to fossil fuel subsidies for several years.

This table gives just a snapshot of some of the reforms that have been made just since the start of 2014. It is by no means exhaustive.

Here I would like to highlight for example the significant step taken by Indonesia at the beginning of this year, when the Government effectively eliminated the subsidy on gasoline and announced phasing out subsidised (Premium) fuel within two years. This was a very important move and I look forward to hearing more about Indonesia's efforts later on in the panel discussion.

Our host country for this meeting, Mexico, has also made great progress in recent years, by gradually phasing out the gasoline subsidy with monthly increments. In fact, with the current price situation, Mexico collects a tax on gasoline rather than paying a subsidy. By 2018, Mexico's fuel market will be fully liberalised as part of the ongoing energy sector reform.



So, what factors are driving reforms ?

Many of the reforms were, in large part, triggered by the extended period of persistently high energy prices between 2008 and mid-2014. These prices pushed the cost of subsidies to very high levels in some countries, particularly those experiencing fast growth in energy demand.

Ongoing subsidy reform initiatives being pursued by the G-20 and other groups such as APEC and The Friends of Fossil Fuels Subsidy Reform have also played a positive role, along with conditions placed on some loans for energy projects by international lending agencies and sovereign lending by the IMF.

The IEA since 1999 maintains a programme of work to encourage countries to reform subsidies, focusing on three main areas:

- Preparing annual estimates of the economic value of fossil-fuel subsidies globally
- Tracking pricing reforms around the world.
- Modelling to quantify the benefits of subsidy reform in terms of:
    - i. savings in energy usage;
    - ii. reductions in carbon dioxide emissions
    - iii. fiscal gains for governments

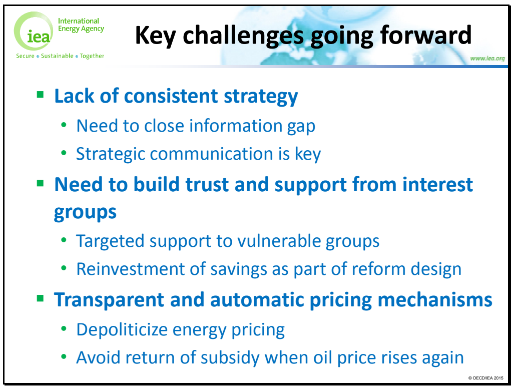
We are also conducting a policy dialogue with interested countries, to foster an exchange of experience. We recently had a very successful dialogue workshop in Jakarta, including participants from Indonesia, Mexico, Malaysia, Peru, Germany, Switzerland, the UK and the US.

Somewhat paradoxically, given what I've just said about the role of high prices, the plunge in oil prices since mid-2014 could have mixed effects on reform efforts.

On the one hand, by reducing the cost of subsidising energy consumption, lower international prices may reduce the budgetary urgency for governments to take action.

In our view, this would be a mistake, for the drop in energy prices presents a unique opportunity to abolish subsidies without having a major upward impact on prices – or inflation – and provoking public outcry.

Indeed as I mentioned, many countries have already taken action. These reforms will lead to a reduction in the cost of subsides and the associated market distortions and environmental damage.



I would like to close by pointing out a few key challenges that we have identified as part of a review past reform efforts.

Firstly, in many cases, governments still embark on their reforms with a rather ad-hoc approach, without much study of public perceptions of the subsidies and with little effort at communication. But in order for reforms to be sustained over time, they need to be explained well, with differentiated campaigns addressing different audiences.

Secondly, to sustain the achieved progress, there is a need for governments to build public trust that saved resources will be used for the benefit of consumers. This in part relates to good communication, but it is also about the right policy design. In other words, governments should leave targeted supports in place for the most vulnerable segments of the population, and make the reinvestment of subsidy savings transparent for consumers so that they understand the overall benefit of reform.

And thirdly, considering the risk of international energy prices rising again, a key challenge consists of putting in place transparent and automatic pricing mechanisms that depoliticise energy pricing after the subsidy has been removed. This will help to avoid a return to subsidised prices in times of higher international prices.

The IEA looks forward to continuing its ongoing policy dialogue as we work on these challenges in the months and years ahead, and I would like to take this opportunity to gratefully acknowledge the Danish government's important support to IEA's work in this area. Thank you.