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"SUNSET CREDITS" MAY HELP ELIMINATE FOSSIL FUEL SUBSIDIES

White paper published ahead of Rio+20 meeting puts forward a novel approach for addressing the world's \$400bn-plus of annual fossil fuel subsidies

Rio de Janeiro, 19 June 2012 – Michael Liebreich, chief executive of Bloomberg New Energy Finance, has published a white paper outlining an innovative approach that might help governments retire fossil fuel subsidies, while at the same time helping to spur the creation of clean energy markets.

The approach, which he dubs "Sunset Credits" acknowledges the difficulty of eliminating subsidies without engendering popular unrest, and offers an elegant way to finance a shift to ever-more-competitive forms of clean energy.

At the G-20 Summit in Pittsburgh in September 2009, leaders of the major economies announced their intention to "phase out and rationalise over the medium term inefficient fossil fuel subsidies while providing targeted support for the poorest". Expectations were high that this was one area in which the Rio+20 United Nations Conference on Sustainable Development, starting on 20 June, could be expected to deliver a strong commitment by nations.

However, while the removal of fossil fuel subsidies has been acknowledged in the draft document put forward by Brazil at the start of negotiations, the wording is weak. It commits countries only to phasing out "inefficient" subsidies; no definition of inefficient is provided, and no countries are likely to accept that their subsidies fit this description.

Meanwhile, however, the issue of fossil fuel subsidies has muscled its way to the top of the Rio+20 agenda, with many delegates calling their elimination the minimum acceptable outcome for the negotiations. They have also caught the attention of activists around the world: the hashtag #endfossilfuelsubsidies is the top trending term on Twitter, ahead of #rioplus20.

The International Energy Agency has estimated that a total of \$409bn was spent worldwide in 2010 on subsidising fossil fuels, up from \$300bn in 2009. The IEA's chief economist estimates that they will amount to more than \$600bn in 2012, based on current oil and gas prices.

In order to inform discussions at Rio+20, Liebreich has published a white paper describing a new approach to removing fossil fuel subsidies. Sunset Credits are designed to facilitate the elimination of fossil fuel subsidies over a period of a few years, without triggering a popular backlash, while at the same time supporting the introduction of modern renewable energy technologies.

Under a Sunset Credit scheme, a government that is currently subsidising fossil fuel consumption would commit to continuing payments for a fixed period of time, most likely between three and 10 years. However, the ongoing subsidies would take the form of credits. The recipients will then be free to decide whether to continue benefiting from the subsidy, or to apply the credits to the purchase and installation of clean energy technologies. These might include energy efficiency measures, renewable heating, cooling or power generating equipment, depending on local conditions. In either case, the subsidy is removed at the end of a fixed period.

Liebreich said: "In macro-economic terms, Sunset Credits are a jiu-jitsu move: they use the very cashflow that represents a misallocation of resources in the economy to fund investment in clean technologies, and thus to remove the need for subsidy at source. Sunset Credits would be ideal in situations - and there are more and more of them around the world – where clean energy already out-competes fossil energy on a level playing field.

"Sunset Credit schemes will not be appropriate in every situation. However, they might prove a useful tool for some governments wanting to retire fossil fuel subsidies that are draining their resources, without triggering the popular discontent which has made it so hard to take action in the past," he added.

The White Paper "Sunset Credits - a Tool for Removing Fossil Fuel Subsidies" can be downloaded from <http://www.bnef.com/WhitePapers/view/106>.

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