

STORIES FOR SUCCESS FOR THE UNFCCC TALANOA DIALOGUE

FOSSIL FUEL PHASE-OUT AND A JUST TRANSITION:

Learning from stories of coal phase-outs

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KEY MESSAGES

- In their closing statement at the UNFCCC COP 23 in 2017, the world's 47 least developed countries requested that the Talanoa Dialogue include “managing a phase-out of fossil fuels”. The 2018 Talanoa Dialogue is a crucial opportunity to increase climate mitigation ambition and effectiveness by putting fossil fuel phase-out on the international climate agenda.
- Phasing-out the production and use of fossil fuels is essential to meeting the Paris Agreement's 1.5-2°C temperature limits.
- Parties should plan the transition away from fossil fuel production and use to ensure that it is well managed, just and equitable. To this end, NDCs and long-term strategies provide a platform to set and discuss targets and policies.
- The momentum for fossil fuel phase-out is mounting with the launch of the international Powering Past Coal Alliance as well as first movers such as the World Bank, France, Costa Rica and Belize announcing plans of ending upstream oil and gas activities.
- Although there is no “one-size-fits-all” solution for a managed decline, Parties and stakeholders can learn from the stories of coal phase-outs implemented in Canada (e.g. Ontario, Alberta), Europe (e.g. South Wales, Spain, Poland), and China (e.g. Beijing, Shanxi). These lessons include several simple principles that will help countries, regions and cities in phasing out coal:
 - **Develop a plan that analyzes the potential impacts** of fossil fuel industry decline and evaluates possible policies to address economic, environmental and social impacts.
 - **Identify options for economic diversification, social safety nets and new employment** that can support workers and their families in the transition.
 - **Establish a dedicated fund to support a just transition and economic diversification.** Use savings from fossil fuel subsidy reform, as well as environmental taxes and charges, to fund the transition.

- **Engage with all stakeholders.** An open dialogue with labour groups, communities, industry associations and other interested parties will help to identify challenges and issues with reform, avoiding more serious consequences and helping to defuse opposition to phase out.

WHERE WE ARE AND WHERE WE WANT TO GO:

FOSSIL FUEL PHASE-OUT

In their closing statement at the UNFCCC COP 23 in 2017, the world's 47 least developed countries requested that the Talanoa Dialogue include “managing a phase-out of fossil fuels” (Republic of Ethiopia, 2017).

The rationale for this request is straightforward. Meeting the goals of the 2015 Paris Agreement on climate change will require a swift and dramatic reduction in the use of fossil fuels, barring unexpected advances in carbon capture and storage (McGlade & Elkins 2015, Verkuijl et al. 2018, Rogelj et al. 2015, Muttitt et al., 2016).

The momentum for fossil fuel phase-out is mounting. At the end of 2017, Canada, together with the United Kingdom and the Marshall Islands, launched the Powering Past Coal Alliance (PPCA) The PPCA unites over 30 national and subnational governments as well as some companies whose ambition is “to accelerate clean growth and climate protection through the phase-out of ... existing traditional coal power” and to place “a moratorium on any new traditional coal power stations” (Environment Canada, n.d.).

First movers have also announced exit strategies for upstream oil and gas. In December 2017, the World Bank Group announced that it would no longer finance upstream oil and gas (World Bank, 2017). France, Costa Rica and Belize banned oil exploration (Verkuijl et al. 2018).

HOW DO WE GET THERE

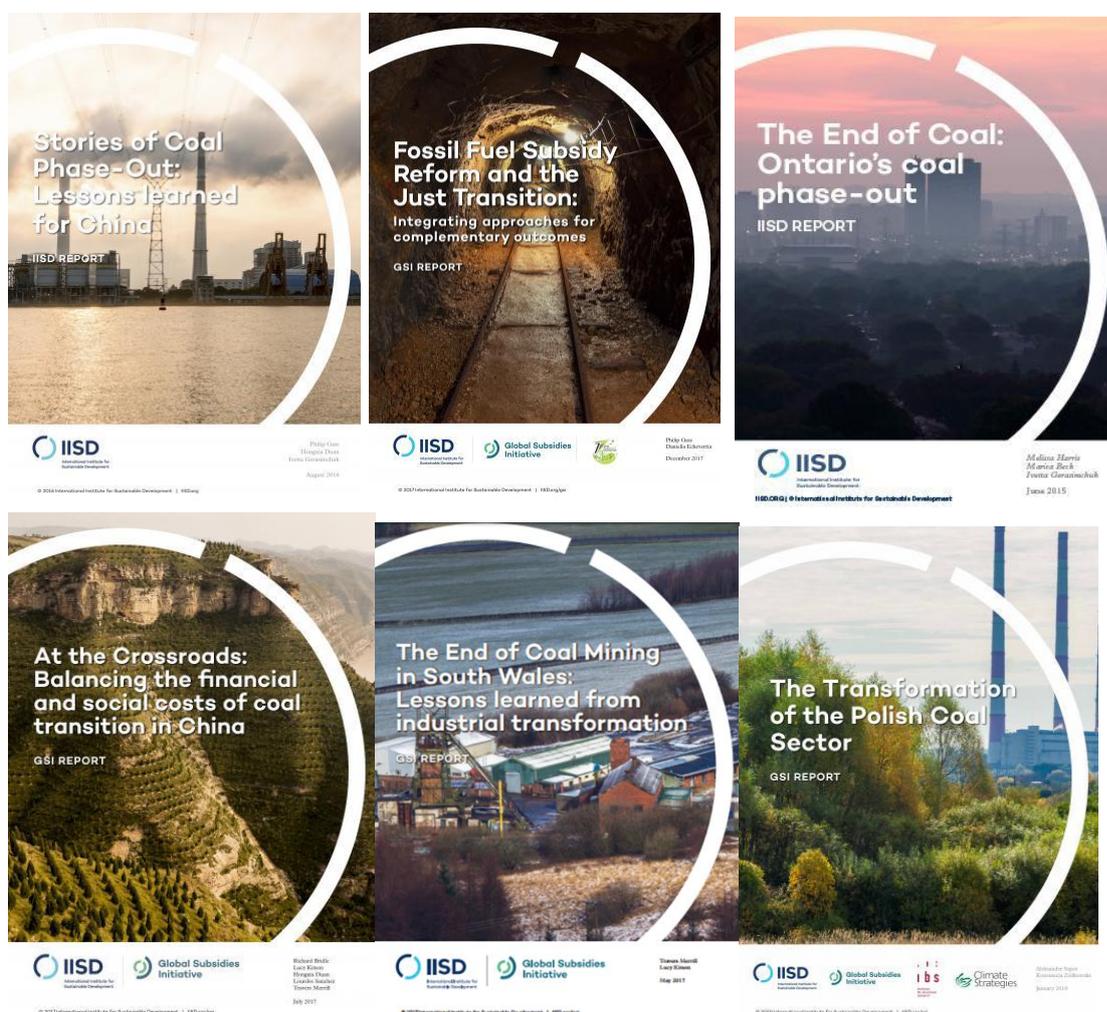
Parties should plan the transition away from fossil fuel production and use to ensure that it is well managed, just and equitable. To this end, Nationally Determined Contributions (NDCs) and long-term strategies provide a platform to set and discuss targets and policies.

The next round of NDCs (to be communicated by 2020) provides an opportunity for countries to include targets to limit fossil fuel production and use. Parties can specify the policies that will support these targets, such as fossil fuel subsidy reform, deadlines for coal phase-outs and for extraction of oil and gas, moratoria on new coal, oil and gas projects, and transition plans for fossil fuel dependent workers and communities. Parties can also map out

a managed fossil fuel phase-out through their long-term low greenhouse gas emissions development strategies (which the Paris Agreement invites them to submit by 2020).

Addressing fossil fuel phase-out explicitly through NDCs and long-term strategies would enable discussion about the extent to which supply-side targets and policies are fair and ambitious. It could provide an important signal to markets, which could, in turn, reduce the risk of stranded fossil fuel assets and shift investment towards low-carbon technologies and infrastructure (Verkuijl et al. 2018).

A Talanoa dialogue around fossil fuel phase-out and a just transition would also highlight where capacity building and other forms of support may be needed to support economic diversification and a just transition. This dialogue can start building on the lessons learned from the stories of the implemented coal phase-outs and other exit strategies for fossil fuels – we summarise some of them below.



THE NEED FOR A DIALOGUE: SHARING STORIES OF COAL PHASE-OUTS

The Talanoa dialogue can be a powerful platform for sharing stories of coal phase-outs with Parties and stakeholders that are implementing or considering various policies of phasing out the production and use of coal, oil and gas. The International Institute for Sustainable Development has worked with many emerging and developing countries and prepared a series of case studies on coal phase-outs for countries to learn from. While the process of transition and the impacts on the citizens are determined by the local circumstances, some of the experiences documented may be relevant for policy-makers elsewhere when considering how to design policy responses to transition.

There is a number of country and regional stories that could be shared, particularly around coal phase-outs in Canada (Ontario and Alberta), Europe (South Wales, France, Spain and Poland), USA (California and Kentucky) and China (Beijing and Shanxi) (see the reference list for details). Each country's circumstances are unique, yet there appear to be several patterns worth noting. These patterns are summarized below using IISD's Window of Opportunity framework (see Box 1).

Box 1. The “window of opportunity” framework

This framework helps to identify the conditions required for successful reform in the energy sector. With favourable conditions in each of the four window panes below, reform can be successful.

- **Context:** What is the situation of the coal industry and what are the economic, social and environmental challenges that need to be addressed?
- **Champions:** Who are the politicians, government officials, industry representatives, activists and stakeholders that can promote the reform process?
- **Concerns/arguments and the case for reform:** What are the concerns about, or arguments for and against, reform and the applied policies?
- **Complementary policies:** What additional policies exist or should be put in place to support reform?

“Window of Opportunity” for Energy Sector Reform

Source: IISD



Context:

- Reform design, as well as its chances of success, are heavily determined by the resource endowment, existing production and consumption patterns and availability of alternatives. Many of the successful examples of coal phase-out come either from the jurisdictions that have little or no commercial coal reserves (California, Ontario) or have considerably depleted them over time (France, Germany, South Wales, Spain, mines around Beijing – the extraction from which became less economically attractive). In these cases, coal phase-out is assisted by energy security and trade balance policies that seek to reduce dependence on imported fuels. The coal depletion factor becomes increasingly topical many countries, including China. This driver will support coal future phase-outs and can also apply to oil and gas, especially higher-cost reserves such as bitumen sands in Canada and deep-sea hydrocarbons. (Harris et al. 2015; ChinaDialogue, 2016; Gass & Gerasimchuk, 2016; Bridle et al. 2017; Gerasimchuk et al., 2017)
- Notwithstanding all political economy challenges at the national and local level, international clean air regulations and climate change commitments can be very important drivers for coal phase-out. For France, Denmark and Spain, the governments' climate commitments in the EU and active role in UNFCCC played an important role. For Ontario, one of the drivers was the fact that Canada could be held accountable for cross-border pollution under the Air Quality Agreement with the United States and the North American Free Trade Agreement. Green standards of the International Olympic Committee also determined cleaner air policies in Beijing. In this sense, countries can “domesticate” their international climate commitments and NDCs to facilitate coal phase-out domestically.

Champions:

- No reform happens without its champions. These champions come from both within and outside governments, even including the public when it demands changes to current policies. Certainly, political leadership at the high level such as the National Development and Reform Commission in China is a key ingredient for reform. But this must be backed by support at the local and grassroots levels.
- It is also important to engage business stakeholders that, if not completely supportive, must at least be willing to work with the government on reforms. In Alberta, the government used commercial contracts with utilities to secure the phase-out, thus securing support from the private sector.
- Many reform experiences have shown that consultations with stakeholders have been critical for building motivation and support for reform. Engagement with unionised labour plays a particularly important role in this respect.

Concerns, arguments and the case for reform:

- If health and climate change concerns are prominent within the country, these can serve as drivers for reform. In particular, health and local pollution concerns have been very prominent drivers of coal phase-out in Beijing and Ontario. In both Denmark and France, climate change has been a major motivation to shift away from

using coal to generate electricity. Air pollution and its negative health implications are a critical concern for many other cities in both developed and developing countries. This factor will support the case for phasing out fossil fuels in these jurisdictions.

- Having a strong domestic market in one or more alternative energy solutions has been a powerful driver of fossil fuel phase-outs, for instance in California, Denmark and China. The prospect of green jobs to emerge from an energy sector transition can assist in driving reform. With the plummeting costs of renewables, there will be more support for transition away from fossil fuels.
- Arguments supporting the reform should be specific, transparent and evidence-based, drawing on rigorous research and stakeholder consultations. Failure to do so may discredit the campaign. It is also essential to select the most trusted messengers of these arguments, depending on the national context (for instance, doctors in the case of the Ontario coal phase-out).

Complementary policies:

- “A just transition” is mentioned as an imperative in the preamble of the Paris Agreement. Internationally, “just transition” conversations are gaining momentum (ILO, 2015; Rosenberg, 2017). But there are still different visions of what is or is not “a just transition” and who should pay for it. One option is a reallocation of savings from phasing out fossil fuel subsidies (Gass & Echeverria, 2017). Other options include earmarking taxes on energy (Clean Energy Cess in India, energy taxes in China, carbon taxes in the EU and Alberta). However, the costs of a “just transition” are typically also shared through universal safety nets and regional and local budgets. To be successful, budgetary asks from stakeholders need to be realistic and take into consideration the broader economic situation
- Barriers to reform need to be addressed through complementary policies to support reform. First of all, these policies should include aid packages for people and regions that rely on the coal industry. Experiences in Denmark and France suggest that a gradual transition, support for workers and a package of policies widely negotiated with and co-designed by different stakeholder groups can be possible, although France’s example has been extreme in this case and highlights how this progress can drag out if not carefully managed.
- In an ideal scenario, new jobs can be created in a low-carbon sector of the economy. In China, both Beijing’s coal phase-out and the national Transition Fund worth 100 billion yuan (USD 15 billion) suggest that a comprehensive policy package is required that fits local realities and situations. This package should include clear goals, suitable timetables, efficient financial supports, available technologies and broad public participation. Once designed, the policy package has to be put in place and implemented appropriately.
- In the case of potential energy price increases, these can be addressed through low-income support programming or other social protections. If there are barriers to renewable energy taking the place of coal, these policies may take the form of regulatory or financial supports to renewable energy or energy efficiency. These

policies could also take the form of green industrial policies to address competitiveness concerns or training/retraining for workers in transitioning sectors

These lessons include several simple principles that will help countries, regions and cities implementing or considering phase-outs of fossil fuel production and use:

- **Develop a plan that analyzes the potential impacts** of fossil fuel industry decline and evaluates possible policies to address economic, environmental and social impacts. A context-bound, realistic reform plan and timeline are everything. Haste can be costly, and preference should be given to a gradual reform and achievable timeline.
- **Identify options for economic diversification, social safety nets and new employment** that can support workers and their families in the transition. Such measures often require investment into infrastructure and strengthening of the local economy through a focus on communities, cohesion, local suppliers and diversification.
- **Establish a dedicated fund to support a just transition and economic diversification.** Use savings from fossil fuel subsidy reform, as well as environmental taxes and charges, to fund the transition.
- **Engage with all stakeholders.** An open dialogue with labour groups, communities, industry associations and other interested parties will help to identify challenges and issues with reform, avoiding more serious consequences and helping to defuse opposition to phase out.

A Talanoa dialogue would aim to bring countries together to learn from one another's experiences on coal phase-outs, exit strategies for oil and gas and a just transition. Exit strategies for fossil fuels can also be informed by the lessons learned from other sectors, in particular, tobacco action. The experience of diversification in the tobacco-growing industry offers positive stories and evidence of manageable economic impacts, with a possibility of transition support being funded out of increased taxes on tobacco consumption (National Cancer Institute and WHO, 2017).

Not all stories to be shared are stories of success since transitions are always difficult. But when shared, both positive and negative experiences can become lessons learned for the success of new transitions.

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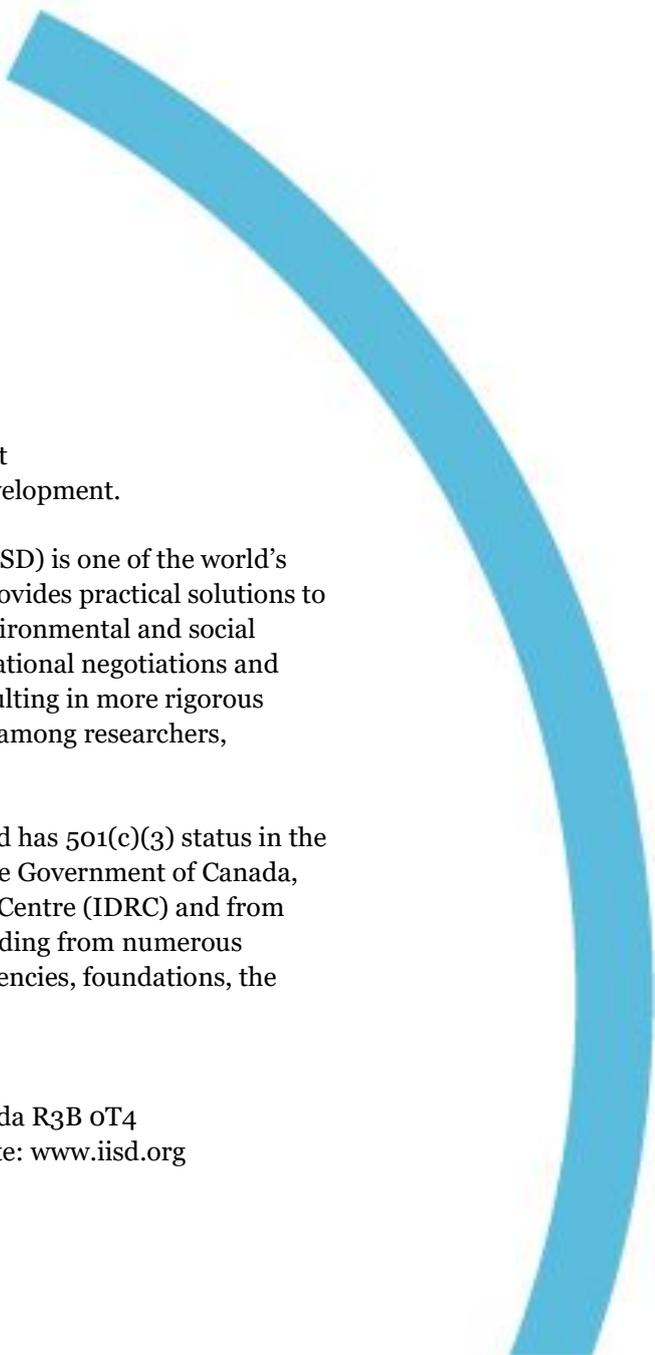
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