



**Asia-Pacific
Economic Cooperation**

2013/EWG45/007
Agenda Item: 3b

Development of a Voluntary Peer Review of Fossil Fuel Subsidy Reform

Purpose: Consideration
Submitted by: United States



45th Energy Working Group Meeting
Koh Samui, Thailand
20–21 March 2013

CONCEPT NOTE

Circulated by the United States and New Zealand For consideration by APEC Energy Working Group (EWG) 45 Development of a Voluntary Peer Review of Fossil Fuel Subsidy Reform

Background

Since 2009, APEC Leaders have annually committed “to rationalize and phase out inefficient fossil-fuel subsidies that encourage wasteful consumption, while recognizing the importance of providing those in need with essential energy services.” In 2011, Leaders’ agreed to set up a “voluntary reporting mechanism” which they would review annually, to assess APEC’s “progress” toward this goal. Our challenge is to turn this commitment into positive progress in each of our economies and to ensure that any reforms are managed in a way that protects the welfare of poor and vulnerable groups. Additionally, any efforts undertaken in APEC should be complimentary to, and not duplicative of, ongoing efforts in the G20. Since not all APEC economies are members of the G20, there is ample opportunity to target capacity building and support to those economies who would find it beneficial.

Government subsidies incentivize fossil-fuel production and consumption and can lead to increased energy demand. When these subsidies are inefficient, they can lead to fiscal pressure, harmful emissions, and potentially undermine APEC’s sustainable green growth agenda. APEC Energy Ministers noted in the 2012 Energy Ministers’ statement that “the reduction of subsidies will encourage more energy efficient consumption, leading to a positive impact on international energy prices and energy security, and will make renewable energy and technologies more competitive.” In terms of environmental benefits, phasing out fossil fuel subsidies globally would deliver benefits for the climate, reduce local pollution and cut global GHG emissions by 10 per cent in 2050, compared with business as usual.¹

Despite the benefits of fossil-fuel subsidy reform for individual economies and the APEC green growth agenda, implementation of reforms continues to be a challenge. Governments often face strong opposition from political parties and stakeholders with vested interests in maintaining the subsidies as well as from the general population. Many APEC economies use fossil-fuel subsidies to support low-income households, state-owned utility companies or important sectors like agriculture. Practical and administrative challenges abound, particularly the challenge of ensuring that poor and vulnerable groups within society are adequately protected from rising energy prices resulting from subsidy reform. An APEC voluntary peer review process on fossil fuel subsidy reform (VPR/FFSR) could improve the quality of APEC voluntary reporting to our Leaders as well as disseminate best practices on reform of inefficient fossil fuel subsidies, which is valuable information for APEC members. These best practices would include: reducing wasteful fossil fuel consumption, allocating resources efficiently, and targeting help to those in need of essential energy services, and effective communication strategies. Like the voluntary reporting mechanism (VRM) adopted by APEC in 2011, the APEC VPR/FFSR would be closely coordinated with the ongoing efforts in the G20 so that they would complimentary and not duplicative of G20 efforts.

Voluntary Peer Review of Fossil Fuel Subsidy Reform

Through a Voluntary Peer Review of Fossil Fuel Subsidy Reform (VPR/FFSR), APEC member economies will be able assess progress over time of achieving the reform called for by APEC Leaders. A voluntary APEC Energy Peer Review Mechanism established by APEC Energy Ministers in May 2007 is already in place. This mechanism was used to establish the APEC Peer Review on Energy Efficiency (PREE)² and can serve as the basis and foundation for developing a peer review on FFSR.

¹OECD & IEA, 2010

² At the EWG 35 meeting (Iquitos, March 2008), the APEC Peer Review on Energy Efficiency (PREE) was proposed by Japan as a concrete program and endorsed by EWG members. Several member economies have successfully participated in this Peer Review process.

Using the already-endorsed APEC PREE³, guidelines for a Voluntary Peer Review of FFSR (VPR/FFSR) will be developed, adapting the PREE methodology as necessary to address FFSR subject areas. The VPR/FFSR may also include key indicators from the APEC Voluntary Reporting Mechanism (VRM) for the reform of inefficient fossil-fuel subsidies (approved by APEC Leaders in 2011), under which economies have begun making initial first submissions (e.g., at EWG44 held in November 2012).

It is important to note that the voluntary peer review process will be economy-led and economy-owned. There will be a strong focus on capacity building and support for implementation of reforms that the volunteer economy determines to be most important. Economies will define which policies will be defined as “inefficient subsidies” that require reform. The peer review could list all fossil fuel “support measures” while the volunteer economy would be directly involved in determining which measures are “inefficient subsidies.” The peer review panel would include individuals familiar with the economy and with international best practices. The volunteer economy has final approval of membership of the review panel. The panel may then provide practical advice on how to reform those subsidies. The volunteer economy will have the final approval on the contents of any report. Working to support APEC Ministers’ instruction to build regional capacity for reform, the goals of the voluntary peer review on FFSR are:

- To improve the quality of information available to our Leaders through the APEC voluntary reporting mechanism
- To provide targeted assistance and capacity building for economies that wish to implement reform
- To facilitate learning and provide an avenue for sharing positive reform experiences & policy tools among APEC economies, including possible follow-on seminars to highlight successful outcomes and lessons learned

Next Steps

To seek approval of this United States self-funded proposal through the EGCFE and EWG. Our proposal would include:

- Drafting guidelines for a VPR/ FFSR (using PREE as a foundation)
- Seek inputs and endorsement from the EWG on these guidelines and methodology
- Identifying a volunteer economy to undertake a VPR/FFSR
- Conduct a VPR/FFSR with a volunteer economy and present results at a future EWG meeting

Ideally, we would be to have the FFSR Voluntary Peer Review Guidelines for EWG review by EWG46 with a volunteer economy ready to begin the review in early 2014.

³ Link to APEC Energy Peer Review Mechanism (Peer Review Energy Efficiency):
http://www.apec.org/Groups/SOM-Steering-Committee-on-Economic-and-Technical-Cooperation/Working-Groups/~media/Files/Groups/EWG/PREE_Guidelines.ashx

APEC Self-Funded Project Proposal Coversheet

Project Title:	Development of a Voluntary Peer Review of Fossil Fuel Subsidy Reform
Project Number (Assigned by Secretariat):	
Committee / WG / Sub-fora / Task-force:	APEC Energy Working Group (EWG)
Proposing APEC economy:	The United States
Co-sponsoring economies:	New Zealand (seeking additional co-sponsor)
Date approved by fora:	
Expected start date:	March/April 2013
Expected completion date:	December 2013
Project summary: Briefly describe the project. Your summary should include the project topic, planned activities, timing and location:	APEC Leaders have committed to phase out inefficient fossil-fuel subsidies and annually review progress toward this goal. As a next step, the U.S. would like to develop guidelines, for APEC member economy consideration, to establish a Voluntary Peer Review on Fossil Fuel Subsidy Reform (VPR/FFSR). Like the APEC voluntary reporting mechanism (VRM), the VPR/FFSR would compliment, but not duplicate, on-going efforts in the G20 process. These guidelines would be based on the existing APEC EWG Peer Review guidelines. Through a Peer Review process, we aim to improve the quality of information available to our Leaders through the APEC voluntary reporting mechanism; provide targeted assistance and capacity building for economies that wish to implement reform; and to facilitate learning and provide an avenue for sharing positive reform experiences and policy tools among APEC economies. Follow-on activities may include the Peer Reviews for volunteer economies as well as APEC seminars to highlight successful outcomes and lessons learned. This self-funded APEC project proposal includes: drafting guidelines for a VPR/FFSR; seeking input and endorsement from the EWG on these guidelines and methodology; and identifying a volunteer economy to undertake a VPR/FFSR in 2014.
Total cost of project (USD):	Approximately \$25,000

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