SUBSIDY WATCH
A bi-monthly roundup of news, views and ideas on subsidies and sustainable development

GSI Global Subsidies Initiative

www.globalsubsidies.org

ISSUE 40, SEPTEMBER 2010

Contact:
Christopher Beaton
IISD
International Environment House 2
9 chemin de Balexert
1219 Châtelaine
Geneva Switzerland
Phone +41 22 917-8748
Fax +41 22 917-8054
cbeaton@iisd.org

iidd Institut international du développement durable / International Institute for Sustainable Development

COMMENTARY:

Energy subsidies in the context of sustainable development

by the OPEC Secretariat

Editor's introduction: in late 2009 and early 2010, the Organization of the Petroleum Exporting Countries (OPEC) helped prepare a Joint Report, Analysis of the Scope of Energy Subsidies and Suggestions for the G-20 Initiative, *in partnership with the International Energy Agency (IEA), the Organisation for Economic Co-operation and Development (OECD) and the World Bank. The purpose of the study was to analyse "the scope of energy subsidies" and provide suggestions for the G-20's initiative to phase out and rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption, and it was submitted to the G-20 Meeting of Finance Ministers and Central Bank Governors in Toronto, Canada, on 26-27 June 2010. In this article, the OPEC Secretariat explains its findings and perspective on the role of energy subsidies and their relationship with sustainable development.*

Energy constitutes one of the main pillars of any society and plays a critical role in economic and social development. The subject of energy subsidies, therefore, needs to be analysed in a proper context when considering its links to the economic, social and environmental dimension of sustainable development.

The G-20 Joint Report highlighted the complex path of decision-making that lies ahead for sovereign countries with regard to energy subsidies. They form an integral part of a range of policies used by governments to maximise welfare for their people. With this in mind, the phasing out of subsidies of any sort – and particularly the phasing out of energy subsidies – should be considered as a sovereign decision. Subsidies are fundamentally country-specific and are related to national circumstances.

> *'The G-20 Joint Report highlighted the complex path of decision-making that lies ahead for sovereign countries with regards to energy subsidies. They form an integral part of a range of policies used by governments to maximise welfare for their people.'*

Addressing the issue of energy subsidies involves resolving definitional, measurement and evaluation issues. The aim is to help design sound and equitable rules to distinguish between those subsidies that are inefficient and therefore need to be phased out, and those that should be maintained, due to their importance for achieving economic, social and environmental objectives. Cognizant of the fact that access to modern energy services is crucial

continued on page 2

Energy subsidies...

continued from page 1

for poverty eradication in developing countries, any analysis should consider that for developing countries, energy subsidies may constitute sensible instruments to alleviate energy poverty.

> *"It is very important to look at the complete picture when it comes to discussing and analysing energy subsidies. In this context, it must be stressed that non-fossil-fuel energy subsidies are considerable in number and have been increasing over time."*

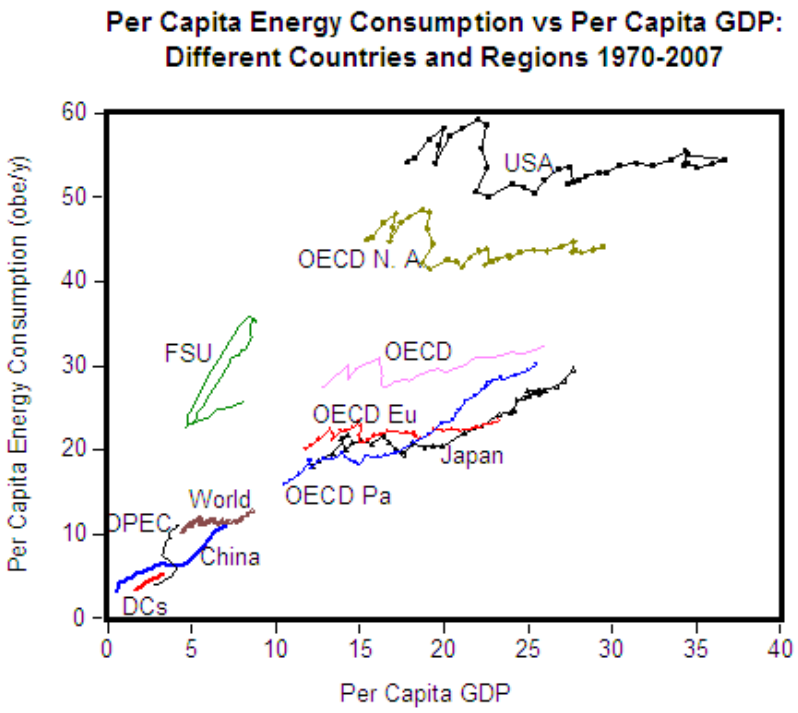
The G-20 reference to the term "rationalize" indicates an awareness that some energy subsidies could be retained. However, for the sub-group of subsidies that are deemed necessary for rationalization in the medium-term, care should be taken that social safety networks are first put in place to minimise the hardship when subsidies are removed. Indeed, the G-20 has explicitly pointed to the need to prevent adverse impacts on the poorest segments of society in the process of reducing energy subsidies.

The price-gap approach used by the IEA in the G-20 Joint Report provides a rough measure for only one sub-set of energy subsidies – those pertaining to fossil-fuel consumption. The shortcomings of the methodology are highlighted in the report. One aspect relates to the point evaluation of fossil-fuel subsidies which is dependent on the choice of year and thus could vary considerably from one year to the next. This is especially the case given the volatility in oil and gas prices. For example, figures for 2009, due to be released later this year, are expected to show a substantially lower figure than that reported for 2008. Another reservation concerns the estimate made for countries that are well-endowed with energy resources. For this group of nations, the benchmark used should concern the cost of production rather than the international market price.

One important observation is that more efforts should be channeled into developing alternative methodologies – such as social cost-benefit analysis (SCBA) – that are more suited to capturing the complexity of the decision-making process regarding subsidies. SCBA has the advantage of examining energy subsidies in a broad developmental context that evaluates the impacts of energy subsidy changes on social welfare.

It is very important to look at the complete picture when it comes to discussing and analysing energy subsidies. In this context, it must be stressed that non-fossil-fuel energy subsidies are considerable in number and have been increasing over time. In fact, on a per unit basis, subsidies relating to renewables, biofuels and nuclear energy are estimated to be much greater in number than those relating to fossil fuels.

The energy subsidies discussion usually relates to the environment. It is often concluded that developing countries, particularly, need to improve their use. This is difficult to understand when examining the per capita energy consumption levels compared to per capita GDP.



continued on page 3

Energy subsidies...

continued from page 2

In addition, negative subsidies in the form of taxes on energy should not be ignored. They are mainly evident in relation to fossil-based transport fuels. The OECD estimates that during recent years, such subsidies have annually exceeded US$ 400 billion. However, including Goods and Services Tax and Value Added Tax, OPEC estimates that more like US$ 800 billion has been realized annually through petroleum product taxation in the OECD region alone (more detailed analyses on selected OECD countries can be found in http://www.opec.org/opec_web/static_files_project/media/downloads/archive/WGW2009.pdf). These taxes significantly affect end-use relative prices for fuels.

The overriding priority of developing countries is to enhance economic and social development and to eradicate poverty. Ideally, there should be no conflict between the economic and environmental thrust. And even if the phasing out of subsidies is called upon on the grounds of climate change mitigation, it is important to emphasise that the United Nations Framework Convention on Climate Change and its principles should apply. In particular, the principles of equity, common but differentiated responsibilities and respective capabilities should not be ignored, nor should the already mentioned economic and social priorities of developing countries.

However, in the final analysis, individual sovereign states must decide energy subsidy policy for themselves.

ANALYSIS:
Fiscal deficit forces Spain to slash renewable energy subsidies

In March 2007, European Union members agreed that 20% of energy needs will be sourced from renewable energy by 2020. Many EU governments reacted by pouring billions of euros in subsidies into their wind- and solar-energy industries. Yet in Spain, at least, the financial crisis that began in 2008 has exposed serious shortcomings in renewable-energy support policies, giving ammunition to critics who argue that both the wind and solar power sectors would not be viable without government subsidies.

Spain subsidizes renewable energy using 'feed-in tariffs', a subsidy mechanism whereby utility companies are legally obliged to purchase the available renewable energy at special above-market rates before they can purchase energy at market prices. Such policies typically guarantee operators of renewable-energy plants above-market rates for 10 or more years in order to increase investor confidence. According to the IEA, it is also good practice for a feed-in tariff to gradually offer lower rates year-on-year for new investments, taking into account cost reductions as technologies mature.

"Spain subsidizes renewable energy using 'feed-in tariffs', a subsidy mechanism whereby utility companies are legally obliged to purchase the available renewable energy at special above-market rates before they can purchase energy at market prices."

Currently, wind power operators in Spain can choose to sell their energy at either a feed-in tariff rate of €77 (US$ 98) per megawatt-hour (MWh) or the market price plus a premium of €30 (US$ 38) per MWh, up to a maximum of €90 (US$ 114) per MWh. The payments are guaranteed for the entire lifetime of the system, although tariffs are reduced a little after the first 20 years of operation. There is no pre-set schedule lowering tariffs for new investments as the technology matures.

Initially, solar power producers could sell their energy at a feed-in tariff rate set at €440 (US$ 565) per MWh, although after the onset of the financial crisis in 2008 this was lowered for any new projects to €259 (US$ 329) per MWh. Payments are again guaranteed for the lifetime of the systems, with slight reductions to the tariffs being made after a longer period than wind, 25 years. According to the IEA, feed-in tariffs are adjusted every quarter for new systems.

By comparison, the market price for electricity, which is set by the cost of energy sources such as natural gas, has been under €45 (US$ 57) per MWh for the last couple of years. This makes Spain one of the biggest renewable-energy subsidizers on the continent.

The feed-in tariffs have been very effective at boosting capacity in Spain, transforming the country into a world leader in wind and solar electricity production in just a few short years. In 2008 Spain accounted for half of the world's new solar energy installations by wattage. Today it boasts the world's largest renewable energy company,

continued on page 4

Fiscal deficit forces Spain...

continued from page 3

Valencia-based Iberdrola Renovables, which operates wind farms throughout Europe and the Americas. The heavy investment has also put it on track to meet the EU's 20% renewable energy target by 2020. In fact, according to figures published by *El País*, Spain was already producing 20% of its electricity through wind and solar power in 2009.

But the crisis and subsequent European sovereign-debt-default scare has recently forced the government in Madrid to drastically cut spending by, among other things, reviewing its significant expenditure on renewable energy. In 2009 alone the country had spent an estimated €3.2 billion (US$ 4.1 billion) subsidizing solar and wind power.

The strain on government revenue is due in part to the way Spain has designed its feed-in tariff system. Usually, this type of subsidy is paid for by utilities charging more for the electricity they sell to consumers, to cover the cost of buying renewable energy at above-market prices. Therefore no money is actually paid out of government revenues: consumers bear the cost directly by paying higher electricity bills. In Spain, however, the price of electricity has been kept artificially low since 2000. The burden has been shouldered by utilities, which have been operating at a loss on the basis of a government guarantee to eventually pay them back. The sum of this so-called 'tariff deficit' has accumulated to over €16 billion (US$ 20 billion) since 2000. For comparison, Spain's deficit in 2009 was around €90 billion (US$ 116 billion) in 2009 and its accumulated debt around €508 billion (US$ 653 billion).

Due to this growing cost and the need to cut spending, Spain's ruling Socialist Worker's Party launched negotiations with the wind- and solar-power sectors earlier this year over cuts to feed-in tariffs. In July, the government managed to reach an agreement with the wind-power sector under which it will cut the top-up rate to wind energy producers by 35% until 2013, a move that could save the country as much as €1.3 billion (US$ 1.6 billion), according to Spanish daily *El Mundo*.

> *"... the crisis and subsequent European sovereign debt default scare has recently forced the government in Madrid to drastically cut spending by, among other things, reviewing its significant expenditure on renewable energy. In 2009 alone the country had spent an estimated €3.2 billion (US$ 4.1 billion) subsidizing solar and wind power."*

It has been more difficult to reach an agreement with the solar power sector, which is much more heavily subsidized due to its higher feed-in tariff rate. In 2009, the solar power industry received over €2.6 billion (US$ 3.3 billion) though it supplied only 2% of Spain's electricity, while wind received €600 million (US$ 764 million) for supplying 18% of the country's electricity.

Having already cut tariffs for new projects in 2008, the Spanish government announced in May of this year that it would again be reviewing subsidies to the solar-power industry, launching rumors that retroactive cuts were being considered, which sent shockwaves through the sector and froze new investment.

After failing to reach an agreement, on 31 July the government announced plans for a further 45% cut in the feed-in tariff for new ground solar installations, the plant-type which currently makes up the majority of solar capacity in Spain. The government is also considering a cap on the amount of electricity that solar companies can sell to utilities, a change which would be retroactive.

Subsidy Watch spoke to Juan Laso, president of the Asociación Empresarial Fotovoltaica (the Photovoltaic Industry Association), who said that the reason that billions of euros had been invested in solar parks throughout the country was because Spain had guaranteed the fixed feed-in tariffs to solar-power producers for 25 years. He argued that the proposed cuts would render existing investments unprofitable and, given that most of the costs associated with solar-power production are paid up-front, could lead to many solar-power companies going bankrupt and defaulting on investment loans.

It is not clear what the future bears for Spain's once-promising solar-power industry now that investor confidence has clearly been shaken, one of the cardinal sins of a good renewables support policy. It also seems evident that despite the best of intentions regarding environmental sustainability, subsidies to renewables can be *economically* unsustainable if they are not well-designed – to both the detriment of the public purse and the development of a future, low-carbon energy supply.

COMMENTARY:

Apples and oranges? Why the Bloomberg NEF comparison of subsidies to renewables and fossil-fuels caused such a fuss

On 29 July, Bloomberg New Energy Finance, a Bloomberg-owned consultancy, put out a press release summarizing the preliminary results of a study comparing subsidies to 'clean' and to 'dirty' energy sources, namely renewable energy and fossil energy. The numbers were quickly picked up and spread, by newspapers, blogs and twitterers, but almost as quickly there emerged in response a growing number of comments and criticisms from the general public and subsidy experts about the reliability of the comparison. What was the cause of their concern? How hard is it to estimate and compare subsidies to different energy sources anyway?

To begin answering these questions, it helps to go back to the exact wording of the Bloomberg press release, which stated that "the world provided approximately US$ 43−46 billion to renewable energy and biofuels technologies, projects and companies in 2009… in stark contrast to the US$ 557 billion spent on subsidizing fossil fuels in 2008, as estimated by the International Energy Agency last month." Michael Liebrich, CEO of Bloomberg NEF, argued that this should correct the misconception among investors that renewables can only operate if they receive government support, given that "the global direct subsidy for fossil fuels is around ten times the subsidy for renewables" and does not take into account the security and public health costs of fossil energy.

There are a number of problems with these claims even as they stand – to be identified in just a moment – and, as can be expected, the presentation of the information became less nuanced as it made its way across the internet and through the blogosphere. Andrew C. Revkin's influential *New York Times* blog, Dot Earth, claimed that fossil fuels get "around 10 times the advantages around the world as non-polluting energy sources." He concluded that rebalancing this distribution of support could be an important step in promoting clean energy without resorting to laws on greenhouse-gas emissions.

> *'… as can be expected, the presentation of the information became less nuanced as it made its way across the internet and through the blogosphere. Andrew C. Revkin's influential New York Times blog, Dot Earth, for example, claimed that fossil fuels get "around 10 times the advantages around the world as non-polluting energy sources."'*

A number of readers and subsidy experts interjected on Revkin's blog, with the World Resources Institute's Lee Schipper posting comments, and Earth Track's Doug Koplow posting a comment and publishing his own blog post about the study. It emerged that not only are there many pitfalls for researchers, journalists and general readers to watch out for when it comes to subsidy estimates, but that these problems are far from uncommon. The following list sums up some of the key arguments that were made in the discussion around the Bloomberg press release and subsequent coverage – how, if it really needs to be done, apples can best be compared with oranges, and the caveats that need to go with any such analysis.

1. Stating estimates in common units: comparing two subsidy estimates as an absolute value will be misleading if different amounts of the thing being subsidised are produced or consumed. Vastly larger quantities of fossil energy are consumed every year than renewable energy, accounting for more than 80% of the world's total primary energy demand in 2007, according the International Energy Agency's (IEA) *World Energy Outlook 2009*. Many commentators pointed out that Bloomberg could have more helpfully compared subsidy estimates expressed in the same units, such as dollars per gigajoule.

2. The need for systematic, comprehensive and transparent analysis: Doug Koplow – citing his work reviewing subsidy estimates by the U.S. Energy Information Administration – argued that subsidy accounting needs to be systematic and comprehensive if it is to be valid, and cast doubts that the Bloomberg comparison could have fully met this standard. The press release itself noted that only 'direct subsidies' were measured, begging the question 'how big are the indirect subsidies and would that change these relative estimates?' This opens up the wider issue that if the results of any study find themselves in the public domain

continued on page 6

Apples and organges...

continued from page 5

and are influential, it is important that the original research can be accessed and evaluated to assess its robustness. According to Bloomberg NEF, the report is only available to their paying clients, and *Subsidy Watch* was unable to elicit any more information.

3. Different subsidies serve different purposes: the common generalisation is that fossil energy technologies are mature whereas renewables are still in development and therefore deserve higher levels of state support, but this is in fact rather simplistic – many fossil energy subsidies in developing countries are at least ostensibly intended to provide support to the poor, thus serving a very different purpose than their renewable counterparts. Moreover, some 'renewables', such as conventional biofuel technologies, are well developed. Although aggregate estimates are certainly valuable, nuance is required to remind readers that total spending, even on a per unit basis, is not the whole story.

4. Not all 'renewables' are renewable: another common problem with comparing fossil energy with renewables is that it is all too easy to assume that subsidies to renewables are necessarily a 'good thing' because – as Revkin claimed – these are "non-polluting energy sources". In fact, some renewables, including conventional biofuels, which receive a large share of subsidies, can be unsustainable.

Ultimately, the problem of comparing subsidies to different energy types comes down to the fact that subsidies and energy are both complicated issues. It is very difficult to make generalisations that are true across the board, and a range of indicators – taking into account spending, purposes, impacts and opportunity costs – is needed for a full understanding of how spending compares.

NEWS:
Fossil-fuel subsidies round-up: July and August 2010

Following announcements that fossil-fuel subsidies will be phased out, from the G-20, the Asia-Pacific Economic Cooperation (APEC) and a number of independent countries, including Iran, Nigeria and Bahrain, Subsidy Watch *has decided each month to highlight important news stories that touch on this theme …*

2 July Left-wing parties hold a convention in opposition to the Indian government's hike of fuel prices, demanding that the decision be withdrawn and a universal subsidy be used instead of one which is targeted, reports national newspaper *The Hindu*. They call on party workers to put on a show that will "shake Delhi".

5 July Strikes break out over India, with the eastern side of the country the hardest hit, and forcing the closure of schools, markets, offices and transport lines. CNN and Reuters, among a number of other news sources, cover the event. Spokespersons say that the government will remain firm in its commitment to price reforms.

5 July The World Wildlife Fund submits a complaint to the European Commission over Spain's decision to support power stations using domestic coal supplies at an estimated cost of €800 million (around US$ 1 billion) over three years. They accuse the country of trying to hand out 'double subsidies', as this support would be additional to existing coal subsidies.

6 July Sima J. Gandhi, writing for the Center for American Progress, highlights two acts that have been introduced to the United States congress that would cut a number of tax subsidies enjoyed by oil companies: The Close Big Oil Tax Loopholes Act, S. 3405, and the End Big Oil Tax Subsidies Act, H.R. 5644. These propose the elimination of subsidies amounting respectively to US$ 20 billion over ten years and US$ 30 billion over five years, and follow an amendment voted down two weeks previously that included similar provisions.

11 July The *New York Times* runs an editorial on 'Big Oil's Good Deal', summarizing that "No industry enjoys the array of tax breaks and subsidies that the oil and gas industry does". It advocates that the U.S. Congress should end the preferential treatment it gives the oil industry and instead focus its efforts on alternative-fuel sources and clean-energy jobs.

continued on page 7

Fossil-fuel subsidies round-up: July and August 2010...

continued from page 6

12 July *The Economic Times reports* that the Indian government may decide not to fully liberalize the price of diesel, contrary to its announcement a month earlier. The price of diesel is reported to have been capped at INR 2 per litre (US$ 0.04), creating a gap of INR 1.49 per litre (US$ 0.03) between the government-set price and the international market price. The newspaper reports that, going forward, the cap may be removed but with a continuation of the INR 1.49 'cushion', irrespective of variations in the price of the fuel. Four days later, *Business Line*, a daily from The Hindu group of publications, reported that the mechanism for sharing the subsidy cost had been announced. Public-sector oil and gas companies were told they might end up bearing a higher burden of under-recoveries than before.

14 July India's Planning Commission gives its approval to a scheme that would see the subsidization of liquefied petroleum gas (LPG) connections for households below the poverty line, reports *The Hindu*. The plan is to grant INR 1,400 (US$ 300) per household, at a total cost of INR 490 crore (US$ 105 million) in the first phase, with the aim being to increase LPG use in rural areas. The program would be organised by the Petroleum and Natural Gas Ministry and operated by public-sector Oil Marketing Companies (OMCs). According to a *Hindustan Times* article later in the month, the inspiration for the policy was Indonesia's 'Zero Kero' program, an initiative that aims to convert all kerosene users to LPG, because LPG is cheaper to subsidize.

14 July Reuters news agency reports that Ukraine has announced plans to raise the price of domestic natural gas by 50% from August, as a condition from the International Monetary Fund (IMF) to secure a US$ 14.9 billion loan. Under the deal, it has committed to reduce its budget deficit from 6.3% to 5.5% of GDP.

14 July UK newspaper *The Guardian* reports that 12 major coal companies have applied for emissions reduction credits under the UN's Clean Development Mechanism (CDM) in order to build more efficient coal-fired power stations in China and India. The newspaper objects that the potential crediting would be an effective subsidy for coal, with a total worth of around GBP 3.5 billion (US$ 5.4 billion) at current carbon-market prices. UNFCCC spokesman David Abbass defended the CDM, arguing that fossil energy would be an important energy resource for "years to come" and that it was therefore important to reduce its carbon footprint where possible.

15 July Susan Jordan in California's *Capitol Weekly* advocates that the state should institute an 'oil severance tax' immediately – a tax levied upon the production of oil and natural gas – like every other major oil-producing U.S. state. The opinion piece summarizes a wide body of evidence and statements in support of such a move.

15 July The Malaysian government surprises observers with an unannounced hike of fuel and sugar prices. According to the Associated Free Press, the cuts will save MYR 750 million (US$ 234.4 million) this year. The *Free Malaysia Today* reports that the price of RON 95 petrol and diesel has been increased by MYR 0.05 per litre (about 1.5 US$ cents) and the price of LPG by MYR 0.10 (3 US$ cents) per kilogram, with one observer calling the move "sneaky and insidious". It also reports that RON 97 petrol would be subject to a 'managed float' but it is not clear if this would involve an immediate price increase. Prime Minister Najib defended the decision, saying that fuel and sugar prices were still the lowest in the region. The next day, *The Star Online* spoke with a number of analysts who said that the price rises were relatively small and would have a 'minimal' impact on consumption.

20 July The European Commission presents a plan that would see EU Member countries only able to continue coal mining subsidies on the condition that they intend to close uncompetitive coal mines by 15 October 2014, according to *New York Times* blog 'Green' and news network EurActiv. This follows controversy over a draft of the same proposal that was leaked the previous month, at which point the text had suggested extending the state aid until 2023. Though news website EU Business reports that Joaquin Almunia, Europe's top competition enforcer, is in support of the proposal, it will still be necessary to get a certain share of approval from the EU's 27 Member governments. In the following days, the Spanish region of Asturias and a number of German politicians reject the plan.

25 July The UK government considers scrapping a scheme that currently allows bus companies to reclaim around 80% of what they pay in fuel duties, reveals *The Guardian* newspaper. The subsidy is said to be worth more than GBP 200 million (US$ 308 million) to one bus company alone, and analysts believe it is most likely to be frozen or phased out, given its importance to company profits. The

continued on page 8

Fossil-fuel subsidies round-up: July and August 2010...

continued from page 7

cuts take place as part of the country's continuing austerity measures.

25 July In a blogger conference call organised by the America Petroleum Institute, API Policy Manager Stephen Comstock argued that the oil and gas industry was not one of the most heavily subsidized industries, reports blog Bob McCarty Writes. Comstock is said to have argued "… all that you have to do is look at our effective tax rate and realize that that's not true. On the whole our industry's effective tax rate, at least for 2009, was around 48 percent, whereas the rest of the S&P was around 28 percent."

28 July *The Wall Street Journal* reports that a draft U.S. energy bill has been proposed that would seek to eliminate the current cap on the damages oil companies can be asked to pay for spills, as well as creating new subsidies for natural gas and electric vehicles. The bill was heavily criticised by the American Petroleum Institute, and would need to be reconciled with a separate bill that House Democrats have drafted in response to the BP disaster in the Gulf of Mexico.

30 July According to news website Bloomberg, South Korea is due to raise its power and natural gas prices by 3.5% in August, for the first time in more than a year. Concerns are raised about the potential impact this could have on inflation.

2 August In his *New York Times* blog Dot Earth, Andrew C. Revkin posts about a Bloomberg press release, which claims that fossil-fuel subsidies are ten times the amount of subsidies to renewables. The same figures will be picked up and repeated throughout the rest of the month, despite various subsidy experts who argue that the numbers, as presented, are misleading. (See the article 'Apples and oranges?' in this issue of *Subsidy Watch*.)

6 August The G-20 makes available two documents regarding member activities to take forward their commitments to fossil-fuel subsidy reform: a summary document, explaining the initiative and findings so far, and an Annex, listing the strategies and timetables for reform that countries submitted to the Toronto Summit in June.

9 August The news website *sify finance* reports that the Indian petroleum ministry rejects the proposal made in July that would see private oil companies bear a higher burden of under-recoveries than they did previously. It is announced that private upstream oil companies will continue to contribute a third of the total value of under-recoveries.

10 August Steve Kretzmann publishes an announcement on his organisation's website, Oil Change International, alerting users to the creation of a new interactive tool that tracks the flow of oil, gas and coal money in the United States Congress, Dirty Energy Money. Preliminary analysis concludes that US$ 114 million has "been paid by these industries over the last decade to buy access and influence in Congress" and highlights the trend that those who receive more financial support from the industry are more likely to vote in its favour.

11 August The *Asia Times* hosts an article by Ranjit Devraj, which highlights the extent to which 'profiteers' have taken advantage of the country's subsidy regimes to date – leading to the adulteration of diesel with kerosene, the diversion of LPG into petrol engines, and, due to a cross-subsidy raising petrol prices and lowering those of diesel, increasing demand for diesel-driven luxury cars and SUVs.

11 August A new report by the Asian Development Bank concludes that Indonesia could improve its growth from 6.5% to 8%, if it were to tackle a number of economic hurdles, including its subsidy policies, according to the *Jakarta Globe*. The study argues that the current subsidies fail to efficiently target and benefit the poor. Other major areas identified for reform include infrastructure, corruption, red tape and job opportunities. On the same day, the *Jakarta Globe* reports that Indonesia has announced plans to remove the subsidy on three-kilogram liquified petroleum gas (LPG) canisters. This causes considerable controversy because the government has been pursuing a 'Zero Kero' program for some years, attempting to convert kerosene users to LPG as part of an attempt to reduce the burden of its kerosene subsidy.

13 August The Argentine government raises power subsidies for the fourth time in 2010, according to Bloomberg. The successive increases are in response to the country's unusually cold winter, resulting in higher-than-usual levels of demand.

13 August Reuters news agency reports that Asian countries are increasingly adopting market-oriented pricing policies for domestic fuel, largely due to the costliness of existing policies. It provides a basic summary

continued on page 9

Fossil-fuel subsidies round-up: July and August 2010...

continued from page 8

of the current arrangement in Vietnam, China, India, Indonesia, Malaysia, Bangladesh and Sri Lanka.

16 August Indonesian President Susilo Bambang Yudhoyono announces that the 2011 state budget will cut subsidies by 8%, to IDR 184.8 trillion (US$ 20.5 billion), and improve their targeting, reports *The Malaysian Insider*. Other issues raised in the budget speech were the need to spend more on infrastructure and to raise tax revenues. An editorial in *The Jakarta Post* criticises the budget plan, saying that "there is not any daring initiative to significantly lessen the economy's addiction to subsidized fuel".

16 August News network Voice of America reports that a fuel crisis may be growing in Iran, which has been under U.N. oil-import sanctions since June. Iranian officials deny the rumours. The country first embarked on a program to cut its fossil-fuel subsidies in 2009 in anticipation of such measures, hoping to reduce its domestic consumption and so increase its energy security. The first price increases are expected later this year.

24 August According to Reuters news agency, Marius Holm, the deputy director of Norwegian NGO the Bellona Foundation, states in an interview that Norway's renewable industry is unfairly hampered because it receives one fifth of the subsidies given to the oil industry.

30 August *The Daily Gulf* prints an article by Ali Aissaoui, Senior Consultant at the Arab Petroleum Investments Corporation (APICORP), which reviews in depth the Joint Report on energy subsidies submitted to the G-20 by the IEA, OPEC, the OECD and the World Bank. Aissaoui concludes that despite clear, insightful analysis, it can be inferred that significant differences remain in how authors believe energy subsidies should be defined and measured, which may cause problems for the initiative to move forward with the recommended "country-specific approach".

For readers interested in keeping track of fuel-pricing developments worldwide, GTZ's monthly Fuel Price News is an invaluable resource that announces publications and events, and major fuel-pricing news stories in different regions of the world. For more information see: http://www.gtz.de/en/themen/29957.htm

EVENT:
GSI-UNEP forthcoming conference on fossil-fuel subsidy reform

In the last 12 months, the reform of fossil-fuel subsidies has been high on international agendas: the G-20 and APEC have committed to phase out inefficient fossil-fuel subsidies, and the 'Friends of Fossil-Fuel Subsidy Reform' group of countries was established, to encourage and support the G-20 initiative.

Despite these developments, little is known about the strategies, progress or timelines of different national governments and international fora. To facilitate a deeper understanding of the issues, ongoing activities and opportunities for international collaboration, the Global Subsidies Initiative (GSI) and the United Nations Environment Progamme (UNEP) are holding a two-day conference, *Increasing the Momentum of Fossil. Fuel Subsidy Reform: Developments and Opportunities*, in order to bring together country delegates and experts from international organizations, NGOs, universities and the industrial sector.

The event will feature representatives from international organizations such as the OECD, UNEP, World Bank, WTO and OPEC, as well as international fora such as the G-20, APEC and the Friends group, who will share and review their perspectives and activities. It will discuss not only the scale and impacts of consumer and producer subsidies, but especially focus on international developments, reform strategies and opportunities for enhanced international cooperation.

The conference will take place at the WTO Headquarters in Geneva on the 14th and 15th of October 2010 and is open to the public.

The agenda and registration form can be downloaded from http://www.globalsubsidies.org/research/gsi-unep-conference-increasing-momentum-fossil-fuel-subsidy-reform-developments-and-opportu

STUDY:
IPC releases report on trade notifications for US, EU and Brazilian biofuels policies

This September, the International Food and Agriculture Trade Policy Council (IPC) released a report on biofuel subsidies and international trade, *Biofuel and Biomass Subsidies in the U.S., EU and Brazil: Towards a Transparent System of Notification*.

The report summarizes biofuel policies in each of the titular countries and classifies them according to the way they provide support – to biomass or biofuel production, biofuel consumption and research and development. It then looks at World Trade Organisation (WTO) rules on biofuel subsidies and the role of notifications in existing agreements and ongoing talks.

The paper concludes that, given increasing debate over the impacts of biofuels subsidies, there is increasing pressure for greater transparency about schemes that support not only biofuels but also fossil fuels, such that the costs and benefits of these policies can be thoroughly analysed. It suggests that it may be necessary to create a new initiative with the responsibility to push for clarification of how WTO rules apply to biofuel subsidies and to monitor their ongoing magnitude.

The report can be downloaded from: http://www.agritrade.org/documents/Biofuels_Subs_Web_Final.pdf

STUDY:
GSI publishes policy brief and technical manual on how to measure subsidies

In July, the Global Subsidies Initiative published the second policy brief in its series looking at how fossil-fuel subsidies can be defined, measured and evaluated: *A How-to Guide: Measuring subsidies to fossil-fuel producers*. The brief identifies how, once subsidies have been defined, different types of subsidy can be measured using different methodologies, referring readers to the relevant section of an in-depth technical manual for more information.

The manual, *Subsidy Estimation: a survey of current practice*, also recently published by the GSI, is targeted primarily at individuals who are interested in preparing estimates of subsidies to particular products or sectors and not only fossil-fuels. It draws together and presents different valuation methods, mainly used by intergovernmental organizations and governments. While for most estimation methods the document quotes multiple sources, often the approaches do not actually differ fundamentally, and the paper recommends that users opt for the one they find most intuitive and for which they have the available data.

The GSI states that both documents are intended to kick-start a dialogue on how to reconcile differences between methods, providing guidance on when each should be used and establishing best-practice recommendations. They are freely available on the GSI's website: http://www.globalsubsidies.org/research/fossil-fuel-subsidies

STUDY:
New OECD report concludes that agriculture subsidies rose in 2009

According to the latest OECD monitoring report on agricultural subsidies, *Agricultural Policies in OECD Countries at a Glance 2010*, subsidies to OECD country farmers increased on average from 21% to 22% of their total receipts, with this increase moving from 22% to 24% in European Union countries. This marks the first such increase in five years. The change is thought to have been largely caused by falling commodity prices in 2009.

The report also concludes that "the most distortive forms of support still dominate" in most OECD countries.

Although the full report is not freely available (US$ 27 for the PDF and US$ 39 for the paper edition), a list of key conclusions and its first chapter, 'Evaluation of Support and Policy Developments', is free to download in a 'highlights' document. The complete report also includes a second chapter with country-specific information and a third chapter with summary tables of estimates of support for OECD countries.

For more information about the report and these downloads, see http://www.oecd.org/document/47/0,3343,en_2649_33773_45538523_1_1_1_37401,00.html