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RESEARCHREPORT

Mapping Options for a Voluntary Peer Review of Fossil-Fuel Subsidy Reform within the G-20

Ivetta Gerasimchuk

July 2013



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Published by the International Institute for Sustainable Development.

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GSI is an initiative of the International Institute for Sustainable Development (IISD). GSI is headquartered in Geneva, Switzerland and works with partners located around the world. Its principal funders have included the governments of Denmark, the Netherlands, New Zealand, Norway, Sweden and the United Kingdom. The William and Flora Hewlett Foundation have also contributed to funding GSI research and communications activities.

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Acknowledgements

The briefing note has been prepared for the Friends of Fossil Fuel Subsidy Reform Roundtable for the G-20 Countries on recent progress and peer review of fossil-fuel subsidy reform held on April 18, 2013 in Washington D.C.¹

The briefing has benefited tremendously from the feedback received during preparations for, and discussions held at, this workshop, as well as from the comments of its three peer reviewers. Their contributions are gratefully acknowledged:

- Tony Porter, Professor, Department of Political Science, McMaster University
- Vangelis Vitalis (in a personal capacity)
- Kerryn Lang, Project Manager, Global Subsidies Initiative, International Institute for Sustainable Development

Any mistakes and inaccuracies remain the responsibility of the author.

¹ Workshop materials are available at the website of Friends of Fossil Fuel Subsidy Reform group of countries <http://www.mfat.govt.nz/ffsr/tabs/events.php>.



Purpose and Scope of This Report

At the Pittsburgh Summit in 2009, the G-20 countries pledged “to phase out and rationalize over the medium term inefficient fossil fuel subsidies while providing targeted support for the poorest” (G-20 Pittsburgh Summit, 2009, p. 3). The G-20 leaders also called on their respective Energy and Finance Ministers “to report to us their implementation strategies and timeline for acting to meet this critical commitment at our next meeting” (G-20 Pittsburgh Summit, 2009, p. 4).

Country reports have been submitted as part of preparation for the subsequent G-20 Summits.² However, such reporting alone may have limited potential for advancing the fossil-fuel subsidy reform. Some G-20 countries³ report that they have no “inefficient fossil-fuel subsidies that encourage wasteful consumption” or “subsidies that lower the price of fossil fuels below international market price levels” (G-20 Working Group on Energy and Commodity Markets, 2012). Further, some countries note that “efficient reporting” on reform progress is “hindered by the fact that for the moment the term ‘energy subsidies’ and the way to calculate them have not been clearly identified and generally agreed, which leads to unstandardized reporting from G-20 members” (G-20 Working Group on Energy and Commodity Markets, 2012).

Therefore, other tools to promote fossil-fuel subsidy reform (FFSR) within the G-20 merit discussion. With that in mind, at the Los Cabos Summit in June 2012 G-20 leaders declared:

We welcome the progress report on fossil fuel subsidies, and we reaffirm our commitment to rationalize and phase out inefficient fossil fuel subsidies that encourage wasteful consumption over the medium term while providing targeted support for the poorest. We ask Finance Ministers to report back by the next Summit on progress made, and acknowledging the relevance of accountability and transparency, to explore options for a *voluntary peer-review process* [emphasis added] for G-20 members by their next meeting. We also welcome a dialogue on fossil fuel subsidies with other groups already engaged in this work. (G-20 Los Cabos Summit, 2012)

This briefing presents ways forward for a voluntary peer-review process within the G-20 and elsewhere for discussion at a roundtable event with members of the G-20, APEC and Friends of Fossil Fuel Subsidy Reform. The briefing aims to identify feasible, near-term options for establishing a voluntary peer-review process within the political constraints of the G-20 commitment to reduce fossil-fuel subsidies. The briefing does not intend to provide a comprehensive review of or prescriptive recommendations on the role of the G-20 in strengthening international governance tools for fossil-fuel subsidy reform. Such recommendations can be found in publications prepared by the International Institute for Sustainable Development, in particular the work of the Global Subsidies Initiative (<http://www.iisd.org/gsi>) and the ENTWINED project (<http://entwined.se>). IISD has also contributed to the development of the Civil 20 (C-20) recommendations to the G-20 on fossil-fuel subsidy reform in the run-up to the G-20 Summit in Saint-Petersburg in 2013 (see Annex I).

The paper draws on a review of the G-20 and other international forums’ documents, policy-research reports, academic literature and anonymous expert interviews.

² The countries that submitted voluntary fossil-fuel subsidy reports to the G-20 include (as of the dates of the Los Cabos Summit in June 2012): Argentina, Brazil, Canada, the EU, France, Germany, India, Indonesia, Italy, Republic of Korea, Mexico, Russia, Turkey and the U.S. Additionally, Spain, which is an invited guest of the G-20, has also submitted its report on fossil-fuel subsidies to the G-20 process.

³ Namely: Brazil, China, France, Italy, Japan, Russia, Saudi Arabia, South Africa and the U.K.



Why Peer Review? A new tool of global governance

The international governance regimes make increasing use of “soft law” as a way to complement “hard law” (Abbott & Snidal, 2000). “Soft law” is particularly applicable to complex issues where the “conventional” type of supranational rules and treaties would be difficult to negotiate and commit to, but on which governments still need to harmonize their domestic policies. Peer reviews are an integral part of the efforts to operationalize “soft law.”

The Role and Benefits of Peer Review Within International Organizations

Peer reviews, also known as “open method of coordination” (this term is more frequently used in the European Union context), are part of the ongoing process of international governance innovation. Pagani (2002, p. 4) defines peer review as

the systematic examination and assessment of the performance of a State by other States, with the ultimate goal of helping the reviewed State improve its policy making, adopt best practices, and comply with established standards and principles. The examination is conducted on a non-adversarial basis, and it relies heavily on mutual trust among the States involved in the review, as well as their shared confidence in the process.

Importantly, “peer review is a discussion among equals, not a hearing by a superior body that will hand down a judgement or punishment” (OECD, 2007, p. 2). “Peer review is not a compliance mechanism. Neither is it a substitute for, or comparable to such compliance mechanisms as dispute settlement bodies, MRV (monitoring, reporting, and verification) systems, or courts or other judicial processes” (UNCSD Secretariat, 2012, p. 1). Instead, peer reviews support co-ordinated unilateralism “in which apparently unilateral actions are taken in the expectation that they benefit the reforming country through a non-obvious reciprocity” (Richardson, 2001).

“Co-ordinated [or concerted] unilateralism” is also the vision of fossil-fuel subsidy reform shared by a number of governments (Gerasimchuk & Zamudio, 2012).

The benefits of peer review of FFSR within the G-20 include:

- **Increased transparency and accountability** of the G-20 countries with respect to their commitments.
- **Understanding** where a country’s fossil-fuel policies are with respect to those of other countries, while rethinking their context and providing different perspectives on fossil-fuel subsidies.
- **Comparing and contrasting** the effectiveness of policy approaches to FFSR over time.
- **Receiving expert advice** for the country’s action plan, including advice and shared experience on politically sensitive issues.
- **Sharing** reform experiences and policy tools among the G-20 members.
- **Getting credit** for positive examples where the country is showing leadership and good practice.

To complement the generic description of benefits of a peer-review to a country, Text Box 1 provides excerpts from the dedicated presentation of the New Zealand Treasury.



TEXT BOX 1. BENEFITS OF OECD AND IEA PEER REVIEWS TO NEW ZEALAND

“New Zealand has benefited from engagement in a wide variety of peer reviews in both OECD and APEC contexts.”

“OECD economic surveys are highly valuable for a small country like New Zealand, where the domestic policy advice community is quite small and often quite inward looking. Comparative analytics from the [OECD] Secretariat and strong encouragement from our peers for faster fiscal consolidation and labour-market reforms supported our policy reform process.”

“New Zealand’s experience [with APEC Peer Review on Energy Efficiency] was very positive. The review provided an insightful snapshot of our economy’s entire energy-efficiency regime and delivered expert advice for New Zealand’s action plan for improving energy efficiency. The review also provided helpful advice on politically sensitive policy issues. The process expanded the policy space and debate in New Zealand. The report added weight to the advice from NZ officials to ministers on energy efficiency policy interventions. The international peer reviewers noted what we do well, including in geothermal energy. Given that the findings were made public, this enhanced New Zealand’s reputation and led to business opportunities in a reviewer’s country.”

Source: Blackmore 2013

These benefits are mirrored by the corresponding objectives of the proposed peer-review process within the G-20 as discussed later in the respective section of this briefing (“Objectives of the Proposed Peer Review”).

An Overview of Existing Peer-Review Applications

Peer reviews have become increasingly instrumental in the activities of various international forums such as the World Trade Organization (WTO), Organisation for Economic Co-operation and Development (OECD), EU, various UN bodies, Asia-Pacific Economic Cooperation (APEC) and many others. It is therefore natural that the G-20, the group of the world’s largest peer countries, and “most probably the most influential international forum dealing with global economic challenges” (Ramos, 2013, n.p.), has already included peer reviews in its toolkit under the Mutual Assessment Process, mandate of the Financial Stability Board, and Accountability Assessment Framework. Table 1 summarizes some of the G-20’s decisions in terms of increased use of mutual assessment tools, including peer reviews, to advance concerted unilateral macroeconomic reforms in general, and the reform of fossil-fuel subsidies in particular.

TABLE 1. SELECTED DECISIONS BY G-20 LEADERS TO OPERATIONALIZE COORDINATION OF REFORM EFFORTS WITH MUTUAL ASSESSMENT TOOLS

G-20 LEADERS’ STATEMENTS	MACROECONOMIC REFORMS	FOSSIL-FUEL SUBSIDY REFORM
Pittsburgh Summit 2009	Adoption of the “Framework for Strong, Sustainable and Balanced Growth” and the Mutual Assessment Process to both monitor and support G-20 countries in their follow-through on respective commitments; establishment of the Financial Stability Board with a peer review function.	Adoption of the commitment “to phase out and rationalize over the medium term inefficient fossil fuel subsidies while providing targeted support for the poorest” and establishment of the progress reporting option.
Los Cabos Summit 2012	Adoption of the Accountability Assessment Framework to assess countries’ progress in meeting their commitments under the Framework; completion of the first assessment under this framework.	Consideration of progress reports submitted by countries and decision to explore options for a voluntary peer-review process underpinned by “the relevance of accountability and transparency”

Sources: IISD-GSI compilation based on International Monetary Fund (IMF), 2013; G-20 Pittsburgh Summit, 2009; G-20 Los Cabos Summit, 2012.



That said, the performance of different existing peer reviews against their stated objectives has been mixed. There is a body of empirical evidence making it possible to suggest under which circumstances peer reviews can be more effective, and what can be the elements of their successful designs (Porter, 2010; Conzelmann, 2010).

The effectiveness of peer reviews depends on two aspects, both crucial, but not easily reconcilable (Porter, 2010):

- **Exercise of power and accountability**, and the development of linkages with actors and institutions external to the peer-review process. This role of peer review has been stressed by the very wording of the G-20 leaders' statements, as there is an increasing call for progress on the commitments the G-20 has undertaken (see Annex I for the C-20 recommendations to the G-20 on fossil-fuel subsidy reform in the run-up to the G-20 Summit in Saint-Petersburg in 2013).
- **Learning, collegiality, autonomy and trust** that can develop among a group of peers—the G-20 leaders themselves or members of the specific working groups—and can be crucial to the genuine dialogue that is needed for an effective peer review.

The challenge is that accountability—especially to external audiences—does not necessarily go hand in hand with internal trust among the group's members (Porter, 2010). The G-20 thus has to find a balance between the “power and accountability” and “learning and trust” aspects of peer review of macroeconomic reforms in member countries, including the reform of fossil-fuel subsidies.

It has also been argued that peer reviews work more effectively in less formal and codified organizations with focus on mutual learning and “co-ordinated unilateralism” rather than in more codified intergovernmental bodies. Likewise, it has been suggested that homogeneous membership is more likely to lead to the development of effective peer reviewing processes (Conzelmann, 2010).

In a very simplified way, Figure 1 plots selected examples of peer-review processes existing within several international governance forums in two dimensions. In terms of organizations' codification the examples range from peer reviews within less formal organizations with focus on learning and “co-ordinated unilateralism” (such as the G-20, APEC and African Union) to mutual assessment within international “hard law” organizations (such as the EU, UN, IMF and the WTO). The OECD and organizations related to it (International Energy Agency, Financial Action Task Force, Global Forum on Transparency and Exchange of Information for Tax Purposes) are closer to the “golden mean” of this continuum. Moreover, the OECD refers to peer reviews as its working method in general (Pagani, 2002).

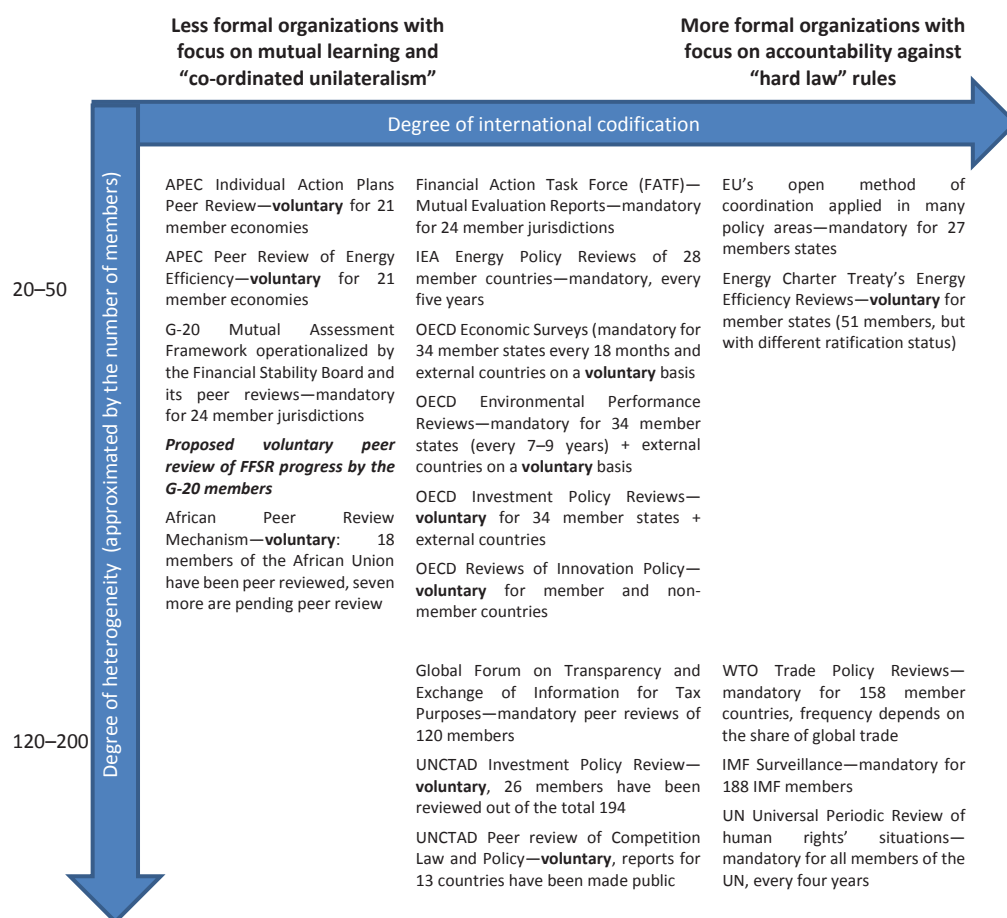


FIGURE 1. SELECTED EXAMPLES OF PEER-REVIEW PROCESSES IN DIFFERENT INTERNATIONAL GOVERNANCE FORUMS

Source: IISD–GSI compilation based on information presented on respective forums’ websites.

Organizations like the G-20, APEC and OECD can be viewed as relatively more homogeneous, while organizations with global or near-global membership (UN bodies, the WTO, the Global Forum on Transparency and Exchange of Information for Tax Purposes) are much more heterogeneous. However, the attempt at classifying the existing peer-review processes in the two dimensions of Figure 1 is very schematic. In fact, even the most “codified” international organizations like the WTO or the Energy Charter use “soft law” methods.

At the same time, the differences in these two dimensions of “international codification” as well as “heterogeneity and size” are important for considering the transferability of experience with specific international mutual assessment processes to the proposed voluntary peer review mechanism for FFSR within the G-20. Overall, this brief overview suggests that the G-20 has the potential to develop effective peer review mechanisms: this forum is rather informal and relatively homogeneous (the members are the world’s largest economies) compared, for instance, to the UN bodies or the WTO.

It is also important to note that both international governance forums and peer-review processes evolve. Flexibility to develop and innovate in terms of peer review design is crucial for finding the right balance between accountability and mutual learning functions. If such balance is found or within reach, peer-review processes tend to become more



effective over time: they become more institutionalized, peer-reviewed governments increasingly see the value of such mutual assessment practices and their participants build mutual trust and accumulate technical expertise and experience (OECD, 2007; Conzelmann, 2010). Text Box 2 exemplifies this idea with three peer-review processes—APEC Peer Review of Energy Efficiency, WTO Trade Policy Review Mechanism, and peer reviews within the Global Forum on Transparency and Exchange of Information for Tax Purposes—that have progressed over the past few years.

TEXT BOX 2. PEER REVIEWS IN ACTION

APEC Peer Review of Energy Efficiency (PREE). PREE draws on the Darwin Declaration of APEC Energy Ministers of May 29, 2007 and was endorsed in 2008. It is a voluntary review process intended to promote achievement of energy efficiency goals and to provide recommendations on how policies could be made more effective. Reviews are operated by the APEC Energy Working Group (EWG), which is accountable to APEC Energy Ministers. Each PREE review focuses on the energy efficiency of a single volunteer APEC member economy, referred to as the “host economy.” The work is carried out by a Review Team of experts from other member economies and international institutions jointly selected by the host economy and the Asia Pacific Energy Research Centre. The Review Team interviews a range of people knowledgeable on energy efficiency issues in the host economy. These may include representatives of government ministries, research institutes, industry associations, energy companies, electricity and gas market regulators, consumer associations, local government, and other relevant groups. A draft Review Report is prepared by the Review Team and agreed to by the host economy. It is then circulated to EWG Members for discussion at the next EWG meeting. After EWG approval, the draft Review Report is officially finalized. Thus, overall the APEC secretariat plays no substantive role; it simply ensures distribution of reports to EWG members and reporting to APEC Energy Ministers. As of June 2013, there have been eight PREEs conducted on New Zealand, Chile, Vietnam, Thailand, Chinese Taipei, Peru, Malaysia and Indonesia; a ninth PREE is scheduled for Brunei. All reports have been made public (APEC Energy Working Group; UNCSD Secretariat, 2012).

WTO Trade Policy Reviews. WTO uses peer reviews within several work streams (for more detail see (Wolfe, 2013). In particular, peer review is used by the WTO Trade Policy Review Body (TPRB), which is responsible for the Trade Policy Review Mechanism with the objective of “achieving greater transparency in, and understanding of, the trade policies and practices of Members.” Discussion in the TPRB is based on major reports written by the WTO Secretariat and the Member under review. In these reports, the Secretariat sometimes warns or expresses worries but never criticizes Members explicitly, and never comments on their rights and obligations under the WTO agreements. In 2008, in view of the global economic downturn, the G-20 asked the WTO and other international organizations to monitor their collective commitment to avoid protectionism, and the WTO began issuing periodic crisis monitoring reports, a novel extension of the mandate of the TPRB. WTO member countries have found the periodic Secretariat reports to be factual and useful, especially for smaller Members that could not begin to generate such data on their own, and that the Secretariat was not trying to add to the dispute settlement system through the back door (Wolfe, 2013).

Peer reviews within the Global Forum on Transparency and Exchange of Information for Tax Purposes. Tax evasion and the need for effective international co-operation in tax matters have been very high on the political agenda in recent years, and have received a lot of attention from the G-20. Progress has been made by the international community in the fight against tax fraud and evasion. However, there was a need to ensure that the progress made resulted in full transparency and effective exchange of information for tax purposes. Reflecting this, the Global Forum on Transparency and Exchange of Information for Tax Purposes was dramatically restructured in September 2009 to make it a more inclusive, effective and open body: it was mandated to put in place a robust and in-depth peer review mechanism. The aim is to safeguard the commitments jurisdictions made and to respond, in particular, to the G-20 call for rapid and effective implementation of the standards of transparency and exchange of information. All members of the Global Forum, as well as jurisdictions identified by the Global Forum as relevant to its work, will undergo reviews of the implementation of their systems for the exchange of information in tax matters. The peer-review process is overseen by the 30 members of the Peer Review Group, chaired by France, assisted by four vice-chairs from India, Japan, Singapore and Jersey (Global Forum on Transparency and Exchange of Information for Tax Purposes, n.d.).

In the meantime, subject matter of the peer review is perhaps the most important element determining how it can be framed more effectively. The nuances of fossil-fuel subsidy reform as subject to peer review are discussed below.



How to Peer-Review FFSR Within the G-20: Keeping all options open?

Objectives of the Proposed Peer Review

Instituting a fossil-fuel subsidy reform peer-review process within the G-20 may help address the pursuit of several objectives (Anonymous, personal communication, April 3-10, 2013; Conzelmann, 2010; Porter, 2010):

- **Interest in increased transparency** over national circumstances and plans related to subsidization of energy production and consumption, given their macroeconomic and political significance and potential cross-border spill-over effects.
- **Interest in learning from peer countries** how to identify, quantify and assess existing fossil-fuel subsidies as well as how to implement reform including compensatory measures, especially in terms of “providing targeted support for the poorest,” and communications strategies for overcoming political barriers to reform.
- **Interest in publicizing** reform efforts and setting respective national benchmarks as a way to gain credit for implemented reforms and to address different stakeholders’ increasing calls for accountability against the G-20’s commitment to FFSR.
- **Interest in “domesticating” the G-20 peer review** in order to create the momentum for this challenging reform at home.

Certain countries may be motivated by some of the above mentioned objectives more than others. Ideally, the objectives will be broad and inclusive so that those G-20 members that report having no inefficient fossil-fuel subsidies can also participate in the process of sharing information and lessons about previous subsidy reforms, including recent developments.

Further, some countries may decide to revisit which subsidies they consider efficient or inefficient. For instance, Canada did not initially report its Atlantic Investment Tax Credit as an inefficient fossil-fuel subsidy within the scope of the G-20 commitment, but later added it to the action list (see Text Box 3).

TEXT BOX 3. CANADA'S PHASE-OUT OF THE ATLANTIC INVESTMENT TAX CREDIT

Through Canada’s Economic Action Plan, the Government is committed to improving the neutrality of the tax system across sectors of the economy and to supporting the commitment by the G-20 Leaders to rationalize and phase out inefficient fossil-fuel subsidies over the medium term.

The Atlantic Investment Tax Credit is a 10 per cent credit available for certain investments in new buildings, machinery and equipment used in the Atlantic region and the Gaspé Peninsula. Currently, the credit supports investments in farming, fishing, logging, manufacturing and processing, oil & gas, and mining.

The Canadian oil & gas and mining sectors have generally been performing well, including in the Atlantic region. Recognizing this, Budget 2012 announced the phase-out of the Atlantic Investment Tax Credit for investments in the oil & gas and mining sectors. The credit will apply at a rate of 10 per cent for assets acquired before 2014 for use in oil & gas and mining activities and at a rate of 5 per cent for such assets acquired in 2014 and 2015. The credit will not be available for such assets acquired after 2015. Transitional relief will be provided in recognition of the long timelines involved in some oil & gas and mining projects. For grandfathered project phases, the credit will apply at a rate of 10 per cent for assets acquired by a taxpayer before 2017 (Phasing Out the Atlantic Investment Tax Credit—Oil & Gas and Mining, n.d.). The phase-out is expected to increase federal revenues by approximately CAD\$135 million over the period 2012-13 to 2016-17 (G-20 Working Group on Energy and Commodity Markets, 2012).



Scoping a Peer Review of FFSR Within the G-20

Fossil-fuel subsidy reform is a domestic issue for each of the G-20 nations. However, faced with the need to reform, many G-20 countries can benefit from coordinated action. When committing to reform of fossil-fuel subsidies at the Pittsburgh Summit, the G-20 Leaders stated their motive as follows: “Inefficient fossil fuel subsidies encourage wasteful consumption, reduce our energy security, impede investment in clean energy sources and undermine efforts to deal with the threat of climate change” (G-20 Pittsburgh Summit, 2009). The International Energy Agency estimates that fossil-fuel consumer subsidies in non-OECD countries amounted to US\$523 billion in 2011 (IEA, 2012), while IISD’s Global Subsidies Initiative estimates fossil-fuel producer subsidies worldwide at US\$100 billion per year at a minimum (APEC Energy Working Group, 2012). These estimates of fossil-fuel subsidies’ value do not include the non-internalized environmental externalities, first of all the cost to society of greenhouse gas emissions.

Within the G-20, fossil-fuel subsidy reform is primarily a macroeconomic, structural reform issue that remains within the domain of Finance Ministers because phasing out fossil-fuel subsidies has the potential to reduce public spending and make government budgets less exposed to volatility of global energy commodity markets.

In this context, the proposed G-20 peer review can be scoped to focus on the following elements:

- Only fossil-fuel subsidies that individual countries consider to be inefficient.
- Two types of measures of government support to fossil fuels: those considered efficient and those considered inefficient, both on the producer and on the consumer side. However, for understanding which subsidies may or may not be inefficient, it may be necessary to review the broader taxation regime and energy market situation in the country.
- Fossil-fuel subsidy reform efforts, including recent developments and lessons learned that could also be helpful for other countries.

Options for Establishing FFSR Peer-Review Groups Under the G-20

The distribution of FFSR expertise is uneven across the G-20 countries. Some G-20 members have published detailed tax expenditure budgets and developed guidelines for energy reform in general. This is the case, for instance, in the EU, where the Commission is overhauling various state aid programs, and in its individual member states. The EU and OECD have also developed identification, reporting and reform of environmentally harmful subsidies (OECD, 2007). Relevant efforts have been recently undertaken by Canada (Office of the Auditor General of Canada, 2013), the U.K. (U.K. Parliament Environmental Audit Committee, 2013) and Sweden (Naturvårdsverket, 2013). At the same time, some G-20 governments are just starting to monitor their state support programs benefiting producers or consumers of fossil-fuels. In certain cases, this process has a long way to go methodologically, as in, for example, countries that do not yet have a national definition of subsidies.

Currently, assistance to build the technical expertise necessary for implementation of FFSR peer reviews can be drawn from international organizations (particularly the OECD, IEA, World Bank, and IMF), other governments (especially those within the group of Friends of Fossil Fuel Subsidy Reform: Costa-Rica, Denmark, Ethiopia, Finland, New Zealand, Norway, Sweden, Switzerland) as well as non-governmental think tanks (such as the Global Subsidies Initiative) that have been working on this issue and enjoy international recognition for this work.

Against this background, the relevant working group within the G-20 considered three principle options for a fossil-fuel subsidy peer review: i) country-only voluntary peer reviews; ii) third-party voluntary peer reviews, or iii) a hybrid of the first two options (country and third-party participation (see Text box 4).



TEXT BOX 4. VOLUNTARY FFSR PEER REVIEW OPTIONS PROPOSED FOR CONSIDERATION BY THE G-20 ENERGY AND COMMODITY MARKETS WORKING GROUP UNDER MEXICO'S G-20 PRESIDENCY, 2012

In 2012, the Energy and Commodity Markets Working Group of the G-20 discussed that the subject matter of the proposed Voluntary Peer Review “could include:

1. Strategies and timeline for phasing out subsidies
2. Progress on the implementation of these strategies
3. Procedures for reporting on phase-out strategies and implementation.”

The Working Group also suggested that the proposed Voluntary Peer Review could take one of the following forms:

Option 1: Country Only Voluntary Peer Review

- Groups of 2-4 countries agree to work with each other to review each other’s phase out progress.

Option 2: Third-Party Voluntary Peer Review

- A group of third-party experts (drawn from think tanks, academia, international organizations, etc.) could be convened to work with individual or groups of countries to review countries’ phase out progress.

Option 3: Hybrid Voluntary Peer Review (Country and Third Party Participation)

- Groups of 2-4 countries agree to work with each other and could also, at their discretion, invite third-party experts to join them to review each other’s’ phase out progress.

Source: Based on G-20, 2012.

Experience from other voluntary peer-review processes suggests that the selection of peer reviewers should be done by the country that is volunteering to undergo a peer review. Some peer reviews (such as the UN Universal Periodic Reviews) use “troikas,” that is, groups of three countries to peer review the fourth one. Such an approach may be an interesting option for the G-20 given the broad use of “troikas” in its work. In particular, one of the “troika” members may include the current chair of the G-20 (Anonymous, personal communication, April 3-10, 2013).

Another option for forming instrumental peer-review groups within the G-20 could be matching countries that have similar reform circumstances. In particular, FFSR considerations vary for net importers and net exporters of energy. Thus, the few net energy exporters within the G-20 (Australia, Canada, Indonesia, Mexico and Russia) form an obvious peer group (see Figure 2).

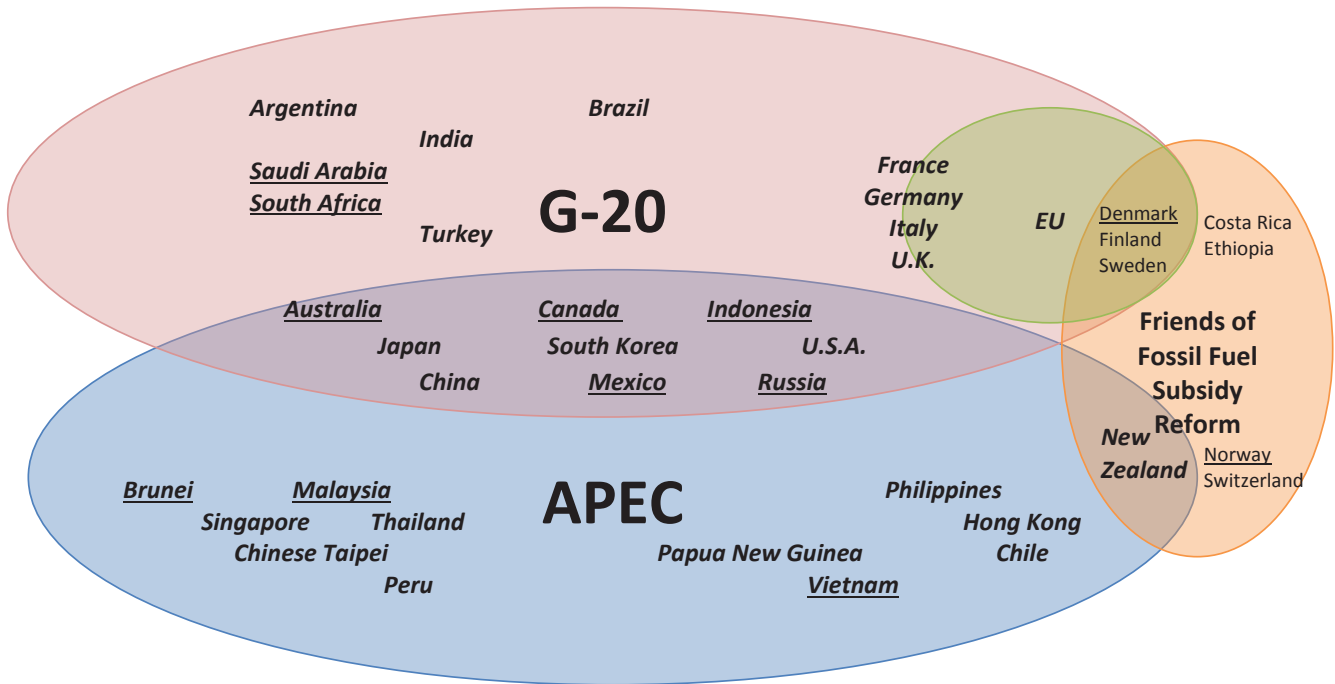


FIGURE 2. IDENTIFYING HOMOGENEOUS GROUPS OF COUNTRIES FOR FFSR PEER REVIEW*

Source: Analysis by IISD-GSI.

* Individual members of the G-20 and APEC are marked in bold italics. Countries which were net exporters of energy in 2010–2011 according to the World Bank’s World Development Indicators are underlined.

Stages of the Proposed Peer-Review Process and Possible Institutional Characteristics

Each peer review has four stages: 1) collection of information, 2) evaluation phase, 3) assessment, and 4) follow-up (Conzelmann, 2010). However, the design of these stages depends on the objectives pursued by the peer review participants—such objectives with respect to FFSR review have been discussed in the previous section.

Table 2 lists the possible options for each of the stages under two scenarios: a) less formal process with focus on mutual learning, b) more formal organizations with focus on accountability.



TABLE 2. STAGES OF PEER-REVIEW PROCESS AND POSSIBLE INSTITUTIONAL CHARACTERISTICS

PEER REVIEW STAGE	LESS FORMAL PROCESS WITH FOCUS ON MUTUAL LEARNING	MORE FORMAL PROCESS WITH FOCUS ON ACCOUNTABILITY
Collection of information	<ul style="list-style-type: none"> Self-reporting only,* no crosschecking of factual evidence Reporting format and indicators may be adapted or chosen by reviewed state 	<ul style="list-style-type: none"> Self-reporting,* complemented by secretariat or third-party report on the basis of independently collected information Predetermined reporting format (template); standardization of indicators
Evaluation by the reviewing team	<ul style="list-style-type: none"> No predetermined structure for discussion 	<ul style="list-style-type: none"> Reviewing team's <i>rapporteurs</i> highlight certain key issues for discussion
Assessment by the designated working group within the G-20	<ul style="list-style-type: none"> General observations; summary of concerns No endorsement by membership 	<ul style="list-style-type: none"> Clear policy recommendations Formal endorsement by membership
Follow-up	<ul style="list-style-type: none"> None of the characteristics mentioned to the right, reviews may be kept behind closed doors 	<ul style="list-style-type: none"> Minutes of the meeting and outcomes of assessment are published** Possibilities for follow-up questions Reviewed member has to explain how it addressed recommendations in subsequent cycles

Source: IISD-GSI interpretation of Conzelmann, 2010.

* Self-reporting with respect to fossil-fuel subsidies reform already exists within the G-20.

** For instance, sessions of the UN Universal Periodic Reviews are webcast live and available for later viewing at <http://www.ohchr.org/EN/HRBodies/UPR/Pages/UPRSessions.aspx>.

The options listed in the left and right columns of Table 2 may be blended in a hybrid mechanism that will reconcile the objectives of building trust and mutual learning, on the one hand, and increasing transparency and accountability of government actions with respect to fossil-fuel subsidy reporting, on the other.

Collection of information on fossil-fuel subsidies in a country can be assisted by a number of methods. They necessarily include review of official documents published by the country under review, such as government budgets and legislation pertaining to energy pricing and taxation. They may also include interviews and visits of the reviewing team to discuss FFSR issues with the country's officials and stakeholders to understand the reform process in more depth.

Peer reviews may also need to address estimates and assessments of fossil-fuel subsidies that have been prepared by other organizations, including the OECD's Inventory of Estimated Budgetary Support and Tax Expenditures Relating to Fossil Fuels (OECD, 2013), IEA's estimates of fossil-fuel consumer subsidies in non-OECD countries, Global Subsidies Initiative's estimates of fossil-fuel producer subsidies in such G-20 countries as Canada, Indonesia and Russia, reports by other think tanks and non-governmental organizations such as Earth Track, Oil Change, etc. The G-20 governments may disagree with some of these external evaluations, but to address them they need to resort to an alternative recognized methodology.

In this context, materials fed into the peer-review process and subsequent discussions will benefit from a common structure. At present, for self-reporting purposes, the G-20 countries have the option of using a very simple template with three questions (see Table 3), which some of them have used. There is a row of issues pertinent to evaluation that these questions do not address, but that have been incorporated into the methodologies supporting evaluation of government policies in other areas, such as WTO subsidy notifications. Based on these experiences, Table 3 demonstrates how the existing three questions used by the G-20 Energy Working Group to guide fossil-fuel subsidy self-reporting by countries can be further elaborated.



TABLE 3. COUNTRY-SPECIFIC INFORMATION NEEDED FOR PEER REVIEW OF FFSR

EXISTING QUESTIONS FOR G-20 COUNTRY SELF-REPORTING OF FOSSIL-FUEL SUBSIDIES	POSSIBLE ELABORATING QUESTIONS
<p>Part 1. Inefficient fossil-fuel subsidies proposed for reform in an implementation strategy reported to the G-20</p>	<ul style="list-style-type: none"> • Titles of specific subsidy programs • Policy objectives of specific subsidy programs • Government agencies (federal, regional, local) responsible for provision of specific subsidy programs • Periods of duration of specific subsidy programs • Type of specific subsidy programs: a) budget transfers (grants, etc.); b) government revenue foregone (tax breaks, etc.); c) provision of government-owned goods and services below market-value (royalty relief, provision of government infrastructure below market-rates, etc.); d) market price support (import duties, etc.) • Intended and unintended beneficiaries of specific subsidy programs, and social significance of continued subsidy provisions • Quantitative estimates of the value of support provided through specific programs • Broader energy market data • Broader information on taxation regime in the country in general
<p>Part 2. Implementation strategies and timeframes for rationalizing and phasing out subsidies described in Part 1</p>	<ul style="list-style-type: none"> • Alternative policy options to meet the stated policy objectives of specific subsidy programs • Estimates of cost savings resulting from FFSR
<p>Part 3. Current status of implementation strategies and timeframes for rationalizing and phasing out inefficient fossil-fuel subsidies</p>	<ul style="list-style-type: none"> • Measures needed to mitigate the negative impacts of FFSR, and their costs • Technical and administrative capacity needs to support FFSR in a country, including needs for peer-learning from other G-20 countries that may have undertaken or considering similar reforms • Timelines of fossil-fuel subsidy reform • Measures to build support for reform and communicate its objectives, implementation plans and expected outcomes to the broader public • Economic, social and political outcomes of the reform in the short, medium and long term • Lessons learned from the reform that can be shared with other countries

Source: Analysis by IISD-GSI.

Initial evaluation of the FFSR progress of the country under review can be undertaken in close collaboration between the reviewing team and the government in question. The reviewing team may elaborate on some policy recommendations to the country under review. Such evaluation may pave the way to the review document's **assessment by the dedicated working group** within the G-20. These will enable all G-20 countries (and not just members of the reviewing team) to familiarize themselves with the situation in the country under peer review and provide their comments. Standard peer-review practice will give an opportunity to the country under review to comment on the review document and policy recommendations at all stages of the process. The working group will then prepare **the summary report to the G-20 Leaders**.

The follow-up stage, including the publication of the peer-review reports, is equally important. Transparency of the process and availability of information on conducted peer-reviews in the public domain are key for achieving the above-mentioned objectives of the peer-review process. Disclosure of the peer-reviews' results to the general public is an integral part of the G-20's accountability. Transparency also allows the identified FFSR lessons to be shared across different countries. Public discussions among peer countries enable them to set benchmarks as a way to gain credit for implemented reforms and explain how the identified reform challenges and recommendations are



addressed in subsequent cycles. The international peer-review process may also publicize some information and recommendations that can be used at the national level to negotiate politically feasible options for further reform. If the full reports and records of peer-review discussions are not published, then—at the very least—the summary report to the G-20 Leaders should be.

Interactions with Other International Forums on FFSR

The G-20 is not the only organization where introduction of a peer-review mechanism for fossil-fuel subsidy reform has been discussed. As a challenging structural policy change, fossil-fuel subsidy reform is currently being discussed at several international forums where governments test the ground and look for a platform that can take the lead on the subject.

Fossil-fuel subsidy issues have been discussed as possible options to be incorporated into both “hard” and “soft law” processes of global governance, in particular the United Nations Framework Convention on Climate Change (UNFCCC) notifications and WTO notifications and trade policy reviews (Anonymous, personal communication, April 3-10, 2013; Halle, Wolfe, & Beaton, 2011; Thöne & Dobroschke, 2008). In this context, improved fossil-fuel subsidy notifications are viewed by the civil society and research organizations as part of advancing global governance to a new level, where transparency in itself becomes its new tool (Halle & Wolfe, 2010).

The OECD carries out inventory and quantification of budgetary support and tax expenditures for fossil fuels in developed member countries (OECD, 2013). The IEA quantifies fossil-fuel consumer subsidies in developing countries using the price-gap approach. These estimates can be raised within the peer-review process of the OECD Economic Surveys and IEA Energy Policy Reviews with specific policy recommendations. And even though the OECD (as well as the IEA, which is a related organization) does not have a supranational authority over the domestic issue of government support to fossil fuels, its role should not be underestimated: the “OECD is more than a think tank because it develops not merely new ideas but consensual knowledge about how the world works” (Wolfe, 2011, p. 292). The OECD and IEA capacity to promote the reform of fossil-fuel subsidies is weakened somewhat by their membership circle, which excludes many countries. However, on the other hand, the OECD and IEA are influential in the G-20 process by virtue of having been tasked by the G-20 (along with other intergovernmental organizations) to provide work that has underpinned the G-20 fossil-fuel subsidy reform work program, including on peer-review methodology.

Further, a voluntary peer review of inefficient fossil-fuel subsidy reform has also been proposed within APEC, and the relevant working group has agreed to establish guidelines for this. Through a peer-review process, APEC would aim to improve the quality of information available to leaders through the APEC Voluntary Reporting Mechanism (see Annex II), facilitate learning and sharing of positive reform experiences and policy tools, and provide capacity building, particularly for less-developed APEC economies. In contrast, in the G-20 the capacity building aspect of fossil-fuel subsidies reform is not critical.

In this context, it is advisable for the G-20 to cooperate with other forums focussing on FFSR in order to encourage complementary approaches. For example, this could include modular reporting and peer review where some of the same modules could be submitted to different organizations, while other modules are developed specifically for the needs of a particular governance forum.



Conclusions and Recommendations

Selecting a specific preferable approach to peer review of fossil-fuel subsidy reform within the G-20 is outside the scope of this briefing paper. However, without being prescriptive, the following conclusions and recommendations appear well-founded in the current policy literature and practice:

- Peer review is a useful tool to coordinate unilateral FFSR action by countries. It is a discussion amongst equals, not a hearing by a superior body that will hand down a judgement or punishment.
- Voluntary peer review can complement countries' voluntary self-reporting on FFSR that already exists within the G-20.
- The G-20 appears to be an appropriate forum to conduct voluntary peer reviews of FFSR, as it is a relatively informal and homogeneous forum where participants already appreciate the value of mutual assessments.
- The benefits of the voluntary peer review may vary amongst the G-20 participants, as they will focus more on achieving their individual objectives, such as increased transparency, learning from peer countries, publicizing reform efforts to gain credit for their implementation, and "domesticating" the G-20 peer review in order to create the momentum for this challenging reform at home.
- Even when instituted, the design of a peer review should remain flexible to allow for evolution and finding the right balance between accountability and mutual learning functions.
- Peer reviews should cover both fossil-fuel subsidies and current and past efforts to reform them to encourage wider participation by those members that have declared they don't have any fossil-fuel subsidies, and to maximize the value of the exercise. Guidelines for undertaking peer reviews could be useful, and these should build upon the reporting templates.
- Participation of international organisations with expertise in evaluating or reforming fossil-fuel subsidies will benefit the proposed G-20 peer-review process.
- The outcomes of the peer reviews should be as transparent as possible, including publicly available reports. If the full reports are not published, then—at the very least—the summary report to the G-20 Leaders should be.
- The G-20 has a unique opportunity to cooperate with other international forums, such as APEC, to develop complementary approaches to FFSR peer reviews.



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Annex I. Recommendations to the G-20 Working Group on Energy and Environment by the Civil-20 Working Group on Environmental Sustainability and Energy, February 2013

[EXCERPT]

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14. Fossil fuel subsidies (consumption and production). Demonstrate continuing progress in phasing out fossil fuel subsidies:

- Maintain reporting on progress to rationalize and phase out inefficient fossil fuel subsidies. In the interests of transparency, sharing lessons and building towards best practices, extend reporting to include all fossil fuel subsidies, including those considered efficient;
- As affirmed in the Los Cabos Leaders' Statement, explore options for a voluntary peer-review process. Implement the process selected, which must include the involvement of independent, non-governmental or international organisations, including those with specific statistical capacity. Include all countries, including those who have reported that they do not have inefficient fossil fuel subsidies leading to wasteful consumption. Publish the results of the peer reviews;
- As affirmed in the Los Cabos Leaders' Statement, strengthen the "dialogue on fossil fuel subsidies with other groups already engaged in the work." Closer relations with APEC and with the Friends of Fossil Fuel Subsidy Reform group are recommended, as are links with the UNFCCC, WTO and intergovernmental organisations including IEA, OECD and the MDBs;
- Utilising these dialogues, and building on the ongoing work programmes of the other groups already engaged in the work and of the Working Group on Energy and Commodity Markets, develop and implement a programme of commissioned research, targeted events and outreach aimed at supporting G-20 Members in strengthening their knowledge of the impacts of subsidies and the reform process, including building networks of those involved in reform or expert in providing advice. Identify national research institutes or equivalent able to provide each G-20 Member with support;
- Develop further guidance on how the G-20 commitment text⁴ should be interpreted, such that it can better inform domestic reform efforts and guide peer review. Recommend the use of a common subsidy definition agreed internationally, such as that contained within Article 1 of the World Trade Organisation's Agreement on Subsidies and Countervailing Measures⁵, which applies to the WTO's membership of over 150 countries. Commission research and discuss producer subsidies, providing guidance on how these would be identified, measured and evaluated;
- Agree to a timetable for phasing out fossil fuel subsidies which act against sustainable development with total withdrawal by 2020.

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⁴ When G-20 Leaders met on September 24–25 2009, in Pittsburgh, U.S., they committed to "rationalize and phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption," while recognizing "the importance of providing those in need with essential energy services, including through the use of targeted cash transfers and other appropriate mechanisms." They called on all countries to "adopt policies that will phase out such subsidies worldwide."

⁵ See http://www.wto.org/english/docs_e/legal_e/24-scm_01_e.htm.



Annex II. APEC Progress on Rationalizing and Phasing Out Inefficient Fossil Fuel Subsidies: Proposed Voluntary Reporting Mechanism

Submitted by the APEC Energy Working Group Secretariat at the 42nd Energy Working Group Meeting in Kaohsiung, Chinese Taipei on October 17–21, 2011 (2011/EWG42/027; Agenda Item: 14b)

Introduction

APEC leaders, meeting in Yokohama in November 2010, reiterated and expanded their previous commitment on fossil fuel subsidy reform by stating they would “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, and review[ing] progress toward this goal on a voluntary basis.”

The APEC Energy Working Group (EWG) is establishing this voluntary reporting mechanism in response to Leaders’ direction. Completion of this annual voluntary report is intended to assist APEC members in assessing and reporting inefficient fossil fuel subsidies that currently exist in their economies; to share lessons learned regarding reform of inefficient fossil fuel subsidies; and to build toward the best practices in this area.

APEC economies are asked to complete this report on an annual basis and submit the report to the EWG. The EWG will compile all submissions on an annual basis and provide a summary report to APEC Senior Officials for their consideration before the Concluding Senior Officials Meeting (CSOM) each year. APEC Senior Officials will report progress towards meeting APEC’s commitments to Leaders each year.

Principles

Each economy’s progress on rationalizing and phasing out inefficient fossil fuel subsidies will be dependent on the economy’s circumstances; the process will be economy-led and economy-owned. However, to increase the effectiveness of reporting across APEC economies, the voluntary reports are intended to consider the degree to which economies have followed these principles regarding fossil fuel subsidy reform, taking into account their national circumstances:

- **Reduce wasteful fossil fuel consumption**—To heighten energy security capability and reduce greenhouse gas emission.
- **Allocate resources efficiently**—To improve market efficiency and allow scarce resources to be channelled to uses that are more productive in the long term.
- **Target help to those in need of essential energy services** - To support removal of inefficient fossil fuel subsidies, targeted policies should be developed where appropriate to protect the poorest populations.
- **Support sustainable economic growth**—Removing subsidies should be done in a way that does not hamper long-term sustainable growth and development and is attentive to macro-economic impacts.



To be most effective, economies' strategies for rationalizing and phasing out inefficient fossil fuel subsidies should:

- Have clear objectives, success criteria and timeframes;
- Be appropriately sequenced in order to support an effective transition;
- Include a coherent strategy for communicating the benefits of reform;
- Plan for building and deploying technical and administrative capacity where required;
- Monitor and assess implementation in a timely and transparent manner.

In developing the strategies for rationalizing and phasing out inefficient fossil fuel subsidies, economies may find it beneficial to receive advice from relevant international institutions that have expertise in particular areas relating to subsidy reform.

Proposed Reporting Form

In view of the importance of reducing and phasing out inefficient fossil fuel subsidies, while protecting the poor, a voluntary reporting mechanism on fossil fuel subsidies is proposed for the Energy Working Group's consideration. A draft format for such a reporting mechanism is attached, which focuses on identification and assessment of efficient and inefficient subsidies, fossil fuel subsidies, plans for future subsidy reduction, and mechanisms for monitoring and evaluating the effectiveness of fossil fuel subsidy reduction. The Energy Working Group is asked to consider the Voluntary Reporting Form on Inefficient Fossil Fuel Subsidies Reduction with a view towards approving a voluntary reporting mechanism that can be announced by APEC Leaders in November 2011.

Voluntary Reporting form on Reducing and Targeting Inefficient Fossil Fuel Subsidies in APEC

1. What inefficient fossil fuel subsidies that encourage wasteful fossil fuel consumption does your economy currently have?
 - a. Please describe the subsidies, including the programme names, implementing government agencies, direct recipients and duration of the subsidies,
 - b. Please describe how the subsidies are paid out,
 - c. Provide an estimate of their financial value, and
 - d. Explain their policy purpose and/or justification.
2. What measures has your economy taken to specifically target inefficient fossil fuel subsidies toward providing those in need with essential energy services?
 - a. Please describe the policy rationale for each action taken, including any transitional support mechanisms, and how long they have been in place,
 - b. Describe which segments of the population receive subsidies as a result of the policy, and
 - c. How this subsidy targets essential energy services for this population.
3. What measures has your economy taken to identify and reduce inefficient fossil fuel subsidies?
 - a. Please describe the policy actions taken, including any legislation or regulatory reform, when they were taken, and timeframes,
 - b. How the inefficient subsidies were identified,
 - c. Indicate which subsidies were affected by the policy action,



- d. How policy changes were communicated to the public and other stakeholders, and
 - e. Whether there were any lessons learned your economy would be willing to share.
4. If your economy has undertaken reform of inefficient fossil fuel subsidies, please answer the following regarding the reform:
- a. What was the estimated amount/size of subsidy per unit before reform?
 - b. What is the total budgetary impact of reform?
 - c. Who was eligible for subsidies before the reform?
 - d. Who was eligible for subsidies after the reform?
 - e. Describe how this reform benefits vulnerable populations or provides essential energy services to those in need.
 - f. When was the reform undertaken, and has it maintained?
5. What “lessons learned” would your economy be willing to share with APEC members regarding fossil fuel subsidy reform?
6. What are your plans for implementing the APEC Leaders’ commitment in the coming year? Please describe those plans - along with estimated impacts, if possible, as per questions 3 and 4.
7. How will your economy monitor the implementation of subsidy reform; measure the effectiveness of its subsidy reduction; and monitor for undesirable secondary effects of subsidy reduction? Please describe the indicators used and lessons learned in this area.



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