International initiatives for reforming fossil-fuel subsidies, and the OECD's contribution to these efforts

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Measuring Energy Subsidies in Ukraine and the Progress of Reform

25 April 2016, Kyiv, Ukraine

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INTERNATIONAL CO-OPERATION TO REFORM FOSSIL-FUEL SUBSIDIES

Interest in the scale of fossil-fuel subsidies (FFS), and how to reform them, is growing. Why?

- To save money.
- To reduce emissions of local pollutants, such as particulate matter (soot) and sulphur oxides (SO_X)
- To meet climate goals.
- To level the playing field between declining sectors (those using fossil fuels) and more modern energy technologies.

International efforts to reform received a big boost in 2009 from G20 and APEC leaders

Since then, China and the United States volunteered to undertake a reciprocal peer-review of their fossil-fuel subsidies in the G20 context. More countries are to follow.

APEC economies launched a comparable process that started with the peer-review of fossil-fuel subsidies in Peru in 2014. Since then, NZ and Philippines.

Various organisations are helping these and other initiatives to support the reform of FFS

ESMAP
Energy Sector Management Assistance Program

odi
Overseas Development Institute

THE PRINCE OF WALES'S
CORPORATE LEADERS GROUP

INTERNATIONAL MONETARY FUND

FFFsR
Friends of Fossil Fuel Subsidy Reform

IISD
International Institute for Sustainable Development

Global Subsidies Initiative

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UNDP

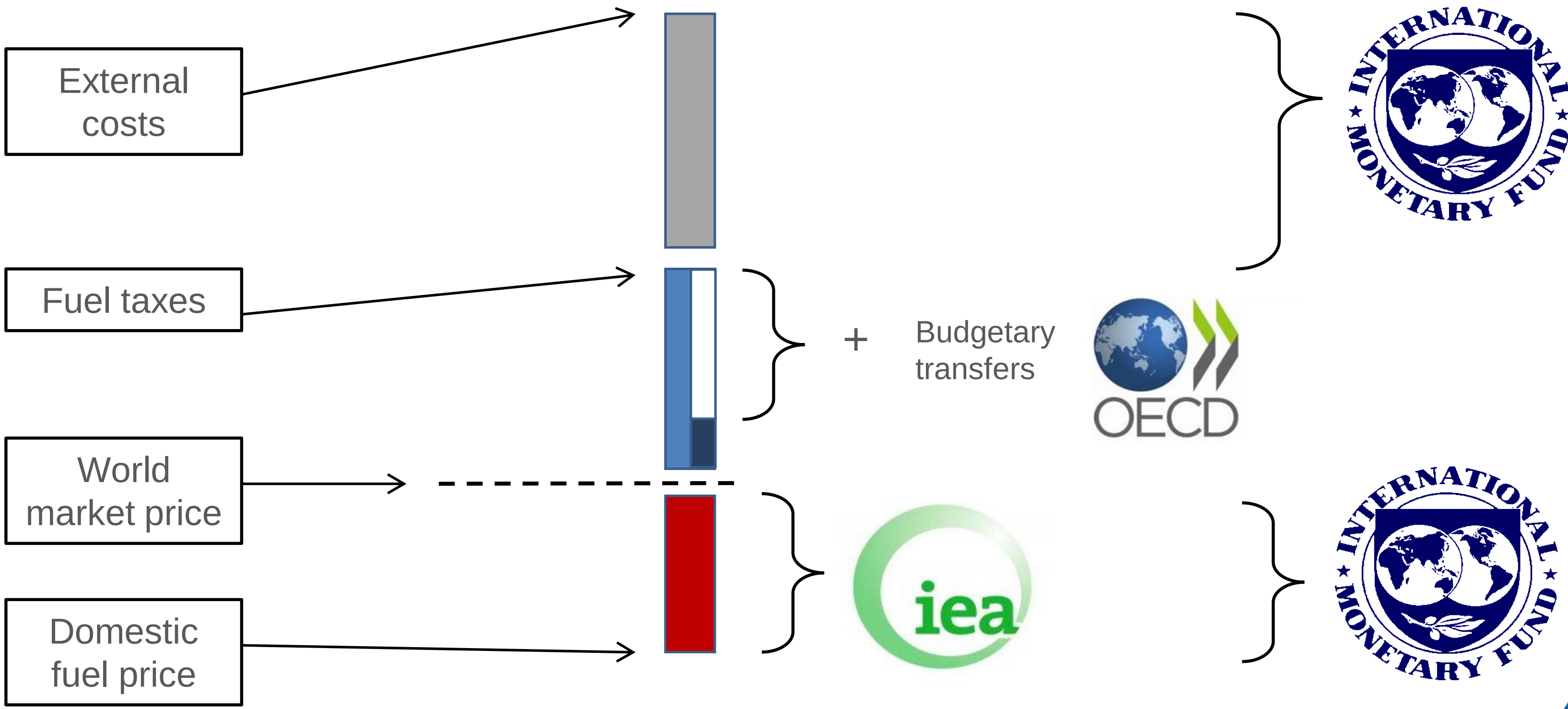
iea
International Energy Agency
Secure • Sustainable • Together

The OECD's efforts are concentrated on:

- Improving transparency (through its detailed database on fossil-fuel support measures).
- Analysing the effects of fossil-fuels and their reform.
- Providing lessons learned from past reform efforts.
- Conducting and participating in peer reviews of national fossil-fuel subsidies.

MEASURING FOSSIL-FUEL SUBSIDIES

Different approaches to measuring consumer subsidies



What about producer subsidies?

- Most producer subsidies will **not lower domestic fuel prices** except in the case of **swing producers** (i.e. large oil producers that can influence oil market price), or where the **domestic market is insulated** from international competition.

- Moreover, **applied import tariffs** on fossil fuels are generally **close to zero**, so that market price support for producers is not an issue (unlike in agriculture).

- Measures supporting the extraction and refining of fossil fuels are, however, **widespread in resource-rich countries**, pointing to the need for another approach to **complement results obtained through prices**.

Fossil-fuel subsidies from a budgetary perspective: the OECD's contribution

- To account for support measures that do not lower domestic fuel prices, the OECD looks at **individual spending programmes and tax breaks** and documents them in an online Inventory.

- The OECD started doing this back in 2010, and work has since progressed to cover **800 measures in 40 countries**.

The OECD system for classifying government support

		Production			Consumption	
		Output or income	Intermed. inputs	Value-adding factors	Unit cost	Household income
Transfer mechanism (how a transfer is created)	Direct transfer of funds					
	Tax revenue foregone					
	Other government revenue foregone					
	Transfer of risk to government					
	Induced transfers					

SOME FINDINGS FROM OUR INVENTORY

On 21 September 2015, the OECD released:

- A brand **new report** on how fossil fuels are supported in the OECD and Key Partners

- An **online database** of about 800 individual support measures

OECD.Stat

Welcome to OECD.Stat

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The DotStat database can be accessed at: www.oecd.org/site/tadffss/data/

Measure	Incidence	Indicator	Stage	Fuel Type		
Alternative Fuels Production Credit	Output Returns	Producer Support Estimate	Refining or processing stage	Coal	Hard coal (if no detail)	2 320 000
				Natural gas		
Capital Gains Treatment of Royalties on Coal	Land and natural resources		Extraction or mining stage	Coal	Anthracite	592 024.
					Coking coal	5 039
					Other bituminous coal	49 087
					Sub-bituminous coal	31 327
					Lignite	3 953 94
Partial Expensing for Advanced Mine Safety Equipment	Capital				Hard coal (if no detail)	
Expensing of Exploration and Development Costs				Petroleum	Crude oil	138 803
					Natural gas liquids	28 766
					Other hydrocarbons	779 731.
				Natural gas		221 649
Excess of Percentage over Cost Depletion				Coal	Anthracite	
					Coking coal	
					Other bituminous	

Data extracted on 05 Aug 2015 15:49 UTC (GMT) from OECD.Stat

Other data characteristics

FY starts on 1 October

Periodicity

start date: 1951

Power code

units

Unit of measure used

US Dollar

Other Aspects

Other comments

Ongoing

USA_TE_03.......

Source

Name of collection/source

Capital Gains Treatment of Royalties on Coal (data for 1987)

Direct source

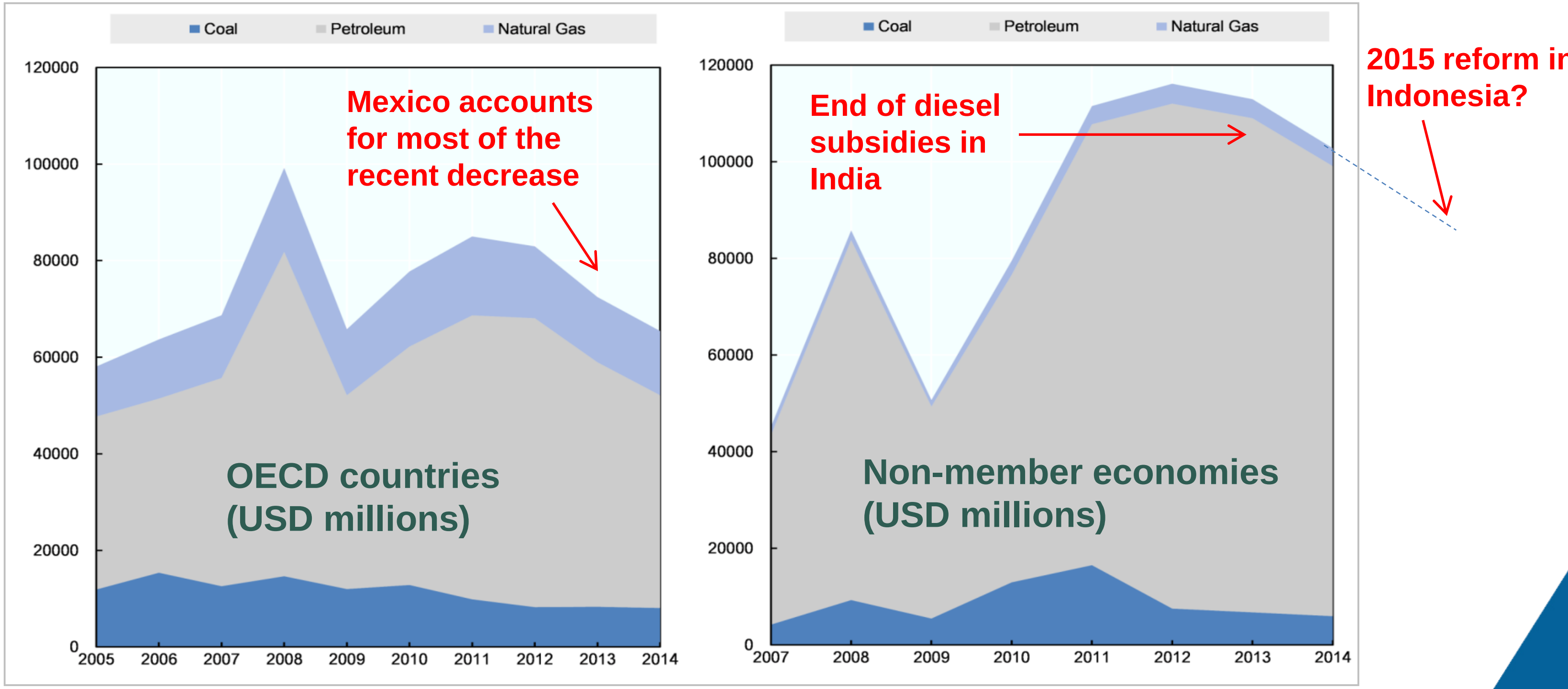
EIA (2008), OMB (various years), IEA.

Source metadata

This tax provision allows individual owners of coal-mining rights to benefit from the more favourable capital-gains tax rate rather than the regular income-tax regime when earning royalties. The measure was originally introduced in 1951 to increase coal production.

This inventory uses production data from the IEA's Energy Balances to allocate the annual tax expenditure reported in budget documents to hard coal and lignite.

Support overall remains high, at USD 160 billion, despite signs of decline



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Some general findings from the OECD Inventory

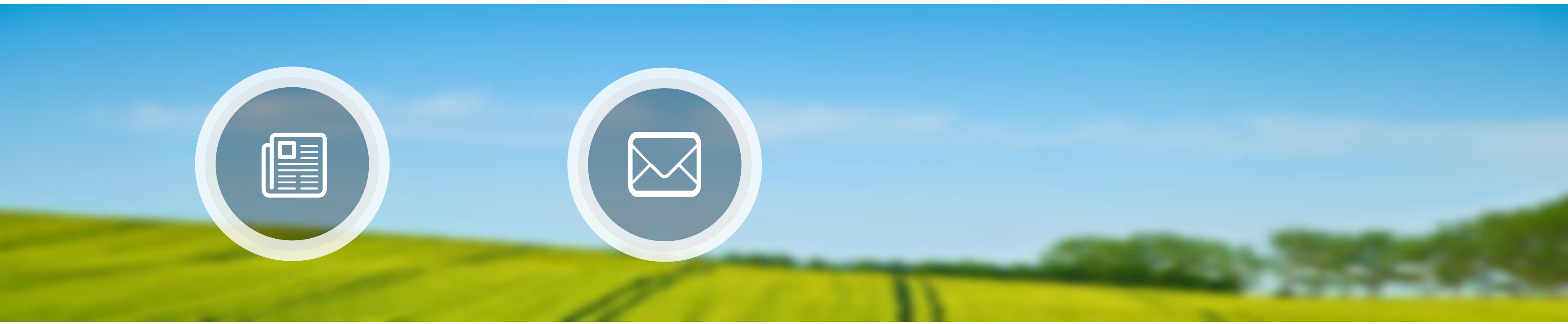
- Support for the **consumption of petroleum products** still accounts for the bulk of total support.
- Among producer measures, most benefit **capital investment and the extraction stage**.
- **Tax expenditures** represent about 60% of all measures.
- Most measures were introduced **prior to 2000**.

Implications for policy makers

- As many subsidies were **introduced years or decades ago**, it is probably time for policy makers to **reassess their relevance** in today's context.
- **Policy coherence** requires that **producer and consumer subsidies** be considered holistically rather than in isolation.
- While **lower oil prices** have helped reduce consumer subsidies, policy makers now need to make sure **reforms are credible and enduring**.
- Other **better-targeted policy instruments** likely exist that would offer **suitable alternatives** for meeting the stated policy objectives of the subsidies.

Contact us

We look forward to answering any questions you may have!



Access all of the information about the fossil fuel subsidies inventory

http://oe.cd/ffss

You can reach us via e-mail by sending your message to the following address:

ffs.contact@oecd.org