

POLICY *Brief*

We Ask Your Government! how much its fossil-fuel subsidies cost

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INTRODUCTION

All government money belongs to its citizens. Surprisingly often however, little information is available to the public about the flow of government funds or the policies behind them. Without budget transparency,¹ policy-makers cannot be held to account for their decisions, funds can be more easily misappropriated and the public is unable to contribute to decision-making. Perhaps more alarmingly, a lack of information can arise because governments themselves do not have an accurate picture of their finances. In this situation, it is impossible to determine whether financial policies are delivering their intended results or reaching their intended recipients. The budget is a government's blueprint for implementing its policies and the public has a right to view these documents to ensure that the plans therein are responsive to public needs and priorities.

Deficiencies in budget transparency are likely to be intensified in the case of fossil-fuel subsidies. Hundreds of billions of dollars each year are deployed² with the intention of making transport or cooking fuel cheaper in poorer countries and accelerating production from new sources in richer countries. The full value of this support is often not known because subsidies can be provided through a diverse array of policies, many of which are not included in national accounts and may not be immediately recognized as subsidies. Support is also provided by different government agencies and jurisdictions without any central oversight or accounting. As such, data on fossil-fuel subsidies is resource-intensive to collect and analyze (Koplow, Lin, Jung, Thöne and Lontoh, 2010).

Fuel subsidies are typically not well targeted. The benefits of most consumer subsidies accrue to relatively high-income households (Coady, et al., 2010). Fossil-fuel subsidies have indirect effects, such as increasing greenhouse gas emissions and tilting the playing field against renewable energy, energy conservation or greater energy efficiency.³ Lack of transparency means lack of

¹ In the context of public policy, transparency refers to the openness and accountability of governments, particularly regarding expenditure and decision-making (Laan, 2010).

² Global consumption subsidies totalled US\$312 billion in 2009 (IEA, 2010). This estimate excludes producer subsidies that promote domestic exploration, extraction or refining.

³ The International Energy Agency (IEA) estimated that world energy demand would fall by 5 per cent were all fossil fuel subsidies phased out by 2020 (2010).

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informed public debate over whether this spending is a good use of public funds. Accurate reporting would benefit governments by improving understanding of financial flows. Revenues could be increased by reforming subsidies such as undervaluation of resource rents and royalties.

THE ASK YOUR GOVERNMENT! SURVEY

The International Budget Partnership (IBP)⁴ commenced a project in 2010 that aimed to find out how well governments respond to legitimate requests from civil society for information on specific areas of public expenditure. The *Ask Your Government!* (AYG) *How Much it is Spending on Development Commitments* initiative posed six budget-related questions to 80 governments. Some of the countries had laws regarding public access to information and some did not. The questions focused on key areas of expenditure related to fulfilling development commitments: maternal health expenditure, financial development assistance and the environment.⁵ The initiative involved a coalition of 100 civil society organizations that helped develop the questions and posed those questions to governments.

The Global Subsidies Initiative (GSI) of the International Institute for Sustainable Development (IISD) was asked to develop one of the questions on environment-related expenditure and to help to interpret the resulting information. The question chosen was “What was the total amount actually incurred during the past three fiscal years on subsidies for oil, gas and coal production and consumption?”⁶

Many countries could be expected to hold such information given that they have made international commitments to reduce fossil-fuel subsidies. The Kyoto Protocol, with 84 signatories, describes the types of measures parties will take to achieve the convention’s objectives, and this includes lowering fossil-fuel subsidies.⁷ In 2009 the leaders of the Group of Twenty (G-20) and the Asia Pacific Economic Cooperation (APEC) forum committed to removing inefficient fossil-fuel subsidies in their jurisdiction in the medium term.⁸ New Zealand has established a Friends of Fossil-Fuel Subsidy Reform group to accelerate progress.⁹

⁴ For more information see <http://internationalbudget.org>

⁵ Further information can be found at the Open Budget Initiative AYG website at <http://www.internationalbudget.org/cms/index.cfm?fa=view&id=3653>

⁶ Subsidies include financial transfers from the public purse, income foregone by the public purse and transfers from consumers to producers (or vice versa) induced by public policies.

⁷ Article 2(1)(a): “Progressive reduction or phasing out of market imperfections, fiscal incentives, tax and duty exemptions and subsidies in all greenhouse gas emitting sectors that run counter to the objective of the Convention.”

⁸ The G-20 leaders agreed at their summit in Pittsburgh (U.S.) in September 2009 “to rationalize and phase out over the medium term inefficient fossil-fuel subsidies that encourage wasteful consumption,” an agreement echoed by APEC leaders in November 2009 (APEC Leaders, 2009; G-20 Leaders, 2009).

⁹ The group includes Denmark, New Zealand, Norway, Sweden and Switzerland.



METHODS

Researchers in 80 countries submitted letters to their ministries of health, finance, environment, and other government agencies and followed-up their initial requests when responses were not provided. Letters in each country cited international commitments related to each question as well as any domestic legislation on access to information. The process lasted seven months and involved over 1,000 letters, phone calls and visits to ministries.

In analyzing the results, the primary objective was simply to answer the question “were researchers provided with the information or not?” In the event that the question was answered, the initial analysis only examined whether all parts of the question were addressed. Country responses were placed into four categories:

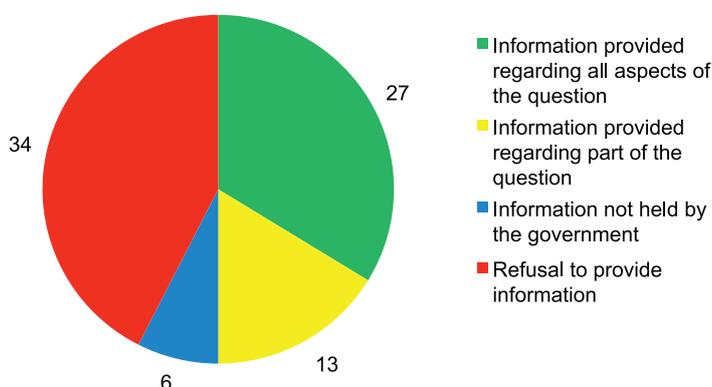
1. Information was provided regarding all aspects of the question
2. Information was provided regarding part of the question only
3. Officials responded that the information was not available
4. Officials refused to provide any information or did not respond

The objective of the project was not necessarily to gain detailed information about each country’s fossil-fuel subsidies or to comprehensively audit each country’s responses by cross-checking against other sources. However, some further analysis of the content of the responses was useful to assess whether countries provided accurate data.

RESULTS

Of the 80 countries approached, only half provided some information on fossil-fuel subsidies: 27 governments (34 per cent of the total) provided an answer to all aspects of the question and a further 13 governments (16 per cent) responded to part of the question. Six governments (8 per cent of the total) said that they did not have the information (see Figure 1). Thirty-four countries (43 per cent of the total) refused to provide any information at all, either through “mute refusal” or by explicitly refusing to provide the data.

FIGURE 1: GROUPING OF COUNTRY RESPONSES BY DEGREE TO WHICH INFORMATION WAS PROVIDED ON THE COST OF FOSSIL-FUEL SUBSIDIES



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Of the 13 G-20 countries approached, only four answered all aspects of the question (see Table 1). Of the two Friends of Fossil-Fuel Subsidy Reform countries that were approached, one provided information.

Table 1: Country results by response category, grouped into G-20 and non-G-20 membership

Response category	Country ^{1,2}	
	G-20 members (including EU countries)	Non-G-20 members
Information received	Germany, India, Russia, South Africa	Albania, Armenia, Azerbaijan, Botswana, Bulgaria, Cambodia, Chile, Columbia, Costa Rica, Georgia, Kosovo, Kyrgyz Republic, Moldova, Montenegro, Mali, Morocco, Mozambique, New Zealand , Romania, Serbia, Slovenia Tajikistan, Uganda
Information received but incomplete	United States	Angola, Argentina, Bolivia, Bosnia-Herzegovina, Croatia, Ecuador, El Salvador, Guatemala, Honduras, Namibia, Ukraine, Zimbabwe
Information not held	Canada, Mexico, Portugal	Kazakhstan, Macedonia, Philippines
Mute refusal	France, Italy, Poland, Spain, Turkey	Algeria, Bangladesh, Brazil, Burkina Faso, Cameroon, Chad, Dominican Republic, DRC, Timor-Leste, Ghana, Kenya, Liberia, Malawi, Malaysia, Mongolia, Nicaragua, Norway , Pakistan, Papua New Guinea, Senegal, Sierra Leone, Sri Lanka, Tanzania, Trinidad and Tobago, Venezuela, Zambia
Explicit refusal		Iraq, Nigeria, Yemen

Notes:

1. Friends of Fossil-Fuel Subsidy Reform countries highlighted in bold

2. All countries approached are signatories to the Kyoto Protocol except the United States and Kosovo



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Individual results need to be treated with some caution. Countries that provided a response to all aspects of the question were not necessarily more transparent. Russian agencies, for example, provided an apparently comprehensive response by saying that no subsidies were provided. The IEA reported that Russia's subsidies to these fuels amounted to around US\$34 billion in 2009 (2010). Other "no subsidies" responses should be treated with similar caution.

Countries that provided relatively comprehensive responses included Chile, Colombia, Germany, India, Kosovo, Moldova, Morocco and Romania. Obtaining information on fossil-fuel subsidies in India, for example, required three approaches to three different agencies but ultimately a good answer was provided. Morocco does not generally rate well for budget transparency, but in this case provided a response to all parts of the question.¹⁰ The local researcher commented that the answer was accurate and the ministry expressed the possibility that it could deliver further information and clarifications.

WHY WERE THE RESULTS GENERALLY SO POOR?

The results showed that the majority of government agencies were unresponsive, unwilling or unable to answer the question on fossil-fuel subsidies.¹¹ The majority of countries ignored at least some of the question and some ignored the request altogether despite the existence of relevant international commitments and domestic laws establishing a right to access the information.

Poor budget transparency is the result of information not being generated, published or shared when requested. This occurs when governments or officials are secretive about the data or insufficient resources are allocated to maintaining budget data and reporting (whether due to lack of available funding or because the area is accorded a low priority).

AYG researchers recorded their experiences in trying to access information, including responses from officials about why information was not forthcoming. These notes shed light on the practical experience of citizens trying to access budget information. The reasons for poor budget transparency in fossil-fuel subsidies are discussed below, illustrated by results from the AYG initiative and other relevant recent studies.

Right to "no"

Many government agencies clearly did not consider that the public had a right to the information. In the majority of cases, this manifested itself in repeated requests being met with "mute refusal." And when agencies did respond, many answers were incomplete or inaccurate. In some cases, officials responded with hostility or suspicion.

¹⁰ Morocco scored 29 out of 100 in the International Budget Partnership's (IBP) 2010 Open Budget Index (OBI).

¹¹ Responses regarding the other development-related questions were similar. The overall project results can be found at the OBI website: <http://www.internationalbudget.org/cms/index.cfm?fa=view&id=3653>



WHY WERE THE RESULTS GENERALLY SO POOR?

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In Portugal, an Amnesty International researcher received angry phone calls from the minister's office who could not understand why they wanted information on the environment. Some incomplete information was then provided. The hostile response undermines the right of access, as, by law, citizens do not have to justify their request (*Subsidy Watch*, 2010).

The researcher from Nigeria noted, "It is always difficult to get any information from these ministries as they always view non-ministry staff or citizens as outsiders. They never see themselves as serving the people" (International Budget Partnership, 2010).

The presence of national access to information laws does not necessarily mean that data was forthcoming. Statutory requirements on disclosure are present in the United States and have driven much of the disclosure of U.S. subsidy data (Koplow, Lin, et al., 2010). However, U.S. officials provided an incomplete response to the fossil-fuels question. In a study of available information on fossil-fuel subsidies in four countries, Koplow, Lin, et al. (2010) found that laws in Indonesia require higher levels of disclosure than were actually being practiced. One of the partners of the AYG initiative, Access Info, is analyzing the AYG data to see the extent to which right-of-access laws are working in the countries involved in the survey.¹²

The government does not have the data: Subsidies can be difficult to find and quantify

Officials in six of the 80 countries said that the government did not hold the information on fossil-fuel subsidies and a further 13 provided incomplete responses. A portion of the "mute refusals" might have been due to the inability to find the data. Even where information was provided, a closer examination of the results reveals that most governments failed to deliver an accurate estimate of their fossil-fuel subsidies.

¹² At the time of writing this, analysis was underway. Please see the Access Info website for updates: <http://www.access-info.org/en/budget-transparency/73-the-6-question-campaign>



WHY WERE THE RESULTS GENERALLY SO POOR?

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A government agency in Botswana was only able to provide AYG researchers with the quantities of fuel subsidized, not the cost of these policies.

AYG researchers in the United States were referred to a report by the Energy Information Administration that estimates U.S. federal subsidies for oil, coal and gas at US\$16.6 billion in 2007. An independent organization, Earth Track Inc., identified US\$49 billion in American coal, oil and gas subsidies in 2007 (Koplow, 2007). U.S. officials also did not provide any data for 2008 or 2009, which had been requested by researchers.

Diverse policy types

Subsidies can be delivered as direct transfers of funds, which are relatively easy to identify and tend to be included in national accounts. More difficult to find are those subsidies provided through forgone government revenue (such as tax exemptions or the opportunity cost of providing rights for extractive resources at low prices), government-provided or purchased goods or services, income or price support, or relief from normal costs or procedures (GSI, 2010a). These policies are rarely included in national accounts. Even when underlying data is available, fossil-fuel subsidies are notoriously complex to estimate.¹³

Disparate agencies

Researchers in the AYG initiative often gave up on their requests for information after being given “the run-around” by different ministries. Responsibility for fossil-fuel subsidies can fall across many different ministerial portfolios, including energy, transport, health, environment, tax and finance. A tax rebate for diesel fuel used by farmers, for example, could fall within the portfolio of agriculture, regional services, transport or tax. Energy ministries are generally the principal source of data, followed by transport, health and tax ministries (Koplow, Lin, et al., 2010).

In Mexico, researchers were told by the Ministry of Energy, the Ministry of Finance and the Treasury that subsidies were not their responsibility and each department said it belonged in the other’s portfolio.

In Ghana, researchers made 15 requests across two ministries before giving up.

¹³ Jones and Steenblik (2010) provide a survey of current practice in subsidy estimation.



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Different jurisdictions

Substantial subsidies can be offered by sub-national jurisdictions, including grants, reduced royalties and tax exemptions. Germany has adopted a law that requires regular subsidy reporting, including from the subnational states. In other countries, the resource-intensiveness of tallying subsidies across federal, state and municipal governments is a major impediment to accurate subsidy accounting.

Lack of capacity

Most governments do not allocate sufficient resources, if any, to collect comprehensive and timely data on their subsidies. The resource-intensive nature of calculating subsidies is problematic for developed countries, but especially so for developing countries that have low budget transparency or accounting standards, where information is not available electronically or state-owned energy companies can make energy pricing decisions opaque. Researchers in the AYG project were frequently told that only one person held the data and inevitably that person was too busy, on leave or otherwise unavailable.

Resource constraints alone are evidently not a cause for poor transparency. The countries that provided relatively good responses to the fossil-fuels question represent diverse levels of economic development and administrative capacity. Despite being one of the poorest countries in Europe, Moldova provided detailed information in response to all parts of the question.¹⁴

Sensitive information

Officials in some countries might be reluctant to reveal details of subsidy policies and funding because it could expose fraudulent or corrupt practices. Subsidies are vulnerable to corruption because of the large amounts of funding involved and the potential for corrupt government decision-makers or administrators to direct funding or subsidized products to particular individuals, companies or groups. Six areas of particular vulnerability have been identified: underpayment of royalties, awarding licenses for oil and gas extraction, irregularities in state-owned enterprises, distribution of profits in production-sharing arrangements, exploitation of loopholes in new subsidy schemes and the diversion of subsidized fuels to unintended recipients (GSI, 2010b).

¹⁴ Moldova has a per-capita GDP of US\$2,500 (CIA World Factbook, 2011).



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Nigerian officials were reluctant to put any response in writing to the AYG initiative and treated researchers with suspicion, indicating that they would not be willing to “expose themselves” by providing the data on fossil-fuel subsidies. Fuel subsidies are a politically sensitive issue in Nigeria and there have been allegations that subsidy funds are diverted to corrupt politicians (Maduabuchi, 2010).

Energy policy is considered a sensitive strategic matter by some governments and officials.

The researcher in Bolivia commented that “the responses (or lack thereof) [to the fossil-fuel subsidy question] demonstrate a general cautiousness on behalf of government to provide information on this based on its strategic importance.”

The Yemeni Ministry of Finance orally refused to provide any information, claiming that such information is private and cannot be requested (International Budget Partnership, 2010).

In an interview with a senior Iraqi official, researchers were told that an international agreement entered into by Iraq prevented the release of information on fossil-fuel subsidies. The information was later found by the researcher on a government website.

State-owned enterprises (SOE)

Energy resources are frequently managed by SOEs, which can be the source of significant recurring subsidies to fossil-fuel-related industries. SOEs often benefit from a wide variety of policy interventions, including financial grants, favourable credit rates, government provision of rights-of-way (for transmission lines or pipelines) and tax exemptions (Koplow, Lin, et al., 2010). These benefits generate artificially low costs of operations. Cross-subsidies provided by state-owned energy companies are common but rarely documented.



RECOMMENDATIONS

The OBP identified three key recommendations from its AYG initiative, which have been expanded below with specific recommendations for transparency about fossil-fuel subsidies.

1. Governments should proactively publish timely, accessible and useful budget information in formats that reflect the international commitments they make.
 - a) Improved national-level reporting of fossil-fuel subsidies should ideally be based on internationally consistent estimation methods and subsidy-accounting standards, which would facilitate compilation, aggregation and comparison of data across multiple countries.
 - b) A more comprehensive picture of total subsidies would be achieved by federal governments requiring subnational jurisdictions to calculate and report fossil-fuel subsidies on a regular basis.
 - c) Governments should also commission detailed “one-off” examinations of subsidy levels in the fossil-fuels sector.¹⁵
2. International institutions overseeing and monitoring development commitments should require budget information in their reporting requirements.
 - a) The G-20 should consider more formal options for monitoring progress against the leaders’ 2009 commitment to phase out inefficient fossil-fuel subsidies by: including a peer-review process for the progress reports submitted to leaders; improving the reporting of subsidies within the World Trade Organization or in National Communications under the UNFCCC; or establishing a secretariat to share information and reports.¹⁶
 - b) Data gathering for multiple countries should use a standard reporting template supported by guidelines that specify the scope of support to be included and standard methods for documenting subsidies.¹⁷
 - c) Detailed country case studies could be performed by the secretariat of an intergovernmental organization in collaboration with the national government using recognized subsidy-accounting framework.
3. People must *Ask Their Governments!* what they are spending on development, and how those investments are being applied in practice. Only through active citizen participation will public spending on development be made transparent, enabling citizens to hold their governments accountable for the use of public funds.

¹⁵ See Koplow et al. (2010) and Laan (2010) for further details regarding Recommendations 1a-c.

¹⁶ See Koplow and Kretzmann (2010) for a full analysis and recommendations relating to G-20 reporting on fossil-fuel subsidies.

¹⁷ See Koplow and Kretzmann (2010) and Laan (2010) for further details and discussion.

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FURTHER DETAILS AND CONTACT INFORMATION

The GSI is an initiative of the International Institute for Sustainable Development (IISD). Established in 1990, the IISD is a Canadian-based not-for-profit organization with a diverse team of more than 150 people located in more than 30 countries. The 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.

See the GSI's *Subsidy Primer* for a plain-language guide to subsidies on: www.globalsubsidies.org.

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