SUBSIDY WATCH

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

GSI Global Subsidies Initiative

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COMMENTARY:

The Friends of Fossil Fuel Subsidy Reform: Supporting the G-20 and APEC commitments

by the Friends of Fossil Fuel Subsidy Reform

Editor's note: The Friends of Fossil Fuel Subsidy Reform is a group of countries committed to supporting the reform of inefficient fossil-fuel subsidies. In this joint statement, the Friends outline why they formed and what they aim to achieve.

In 2009 and again in 2010, G-20 and APEC leaders signalled their political commitment to the reform of inefficient fossil-fuel subsidies, as set out in their communiqués.

The rationalisation and phase-out of inefficient fossil-fuel subsidies that encourage wasteful consumption offers significant environmental and climate change benefits. Research suggests that reform of fossil-fuel subsidies could reduce global GHG emissions up to 10% by 2050 and make a substantial contribution to keeping global warming below 2 degrees in 2050. Reforms to fossil-fuel subsidies would also remove an existing disincentive to the development and greater uptake of renewable sources of energy.

An informal group of non-G-20 countries has emerged to encourage the G-20 and APEC leaders' initiatives on fossil-fuel subsidies reform. Known as the 'Friends' of fossil-fuel subsidy reform, this group of countries is united by a commitment to concerted international action on climate change and coherence in international trade and environment policy. The Friends group believes that it is important that like-minded non-G-20 countries publically support the G-20 as it tackles this politically and economically complex initiative.

The Friends group was launched in June 2010 and currently includes

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Denmark, New Zealand, Norway, Sweden and Switzerland. Consolidation of the Friends initiative continues and membership is expected to expand. An informal Ministerial meeting of the Friends was held at the UNFCCC climate change meeting in Cancun last December.

The Friends' objective is to encourage the G-20 to reform subsidies and in particular to ensure:

- *Ambition*: the level of ambition

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remains high; and,

- *Transparency*: that this remains an important guiding principle for the G-20 process.

The Friends commend the G-20 on having made good progress so far, including the publication of G-20 country-specific lists of subsidies and phase-out strategies in July 2010, along with the Joint Report on fossil-fuel subsidies prepared for G-20 leaders by the IEA, OECD, OPEC and World Bank.

These actions contribute to the ambition and transparency of the G-20 initiative. Even so, the Friends believe that more remains to be done by the G-20 to ensure it meets the challenge it has set itself.

In particular, the Friends encourage the G-20 to demonstrate its continued commitment in future Summit Communiqués, including through sharing evidence of its progress towards rationalising and phasing-out inefficient fossil-fuel subsidies in its member countries. The Friends also encourage the G-20 to continue to rationalise and phase out inefficient subsidies for both the consumption and production of fossil fuels.

"Given wide-spread public concern about climate change, it is only a matter of time before citizens across the globe question the logic of continuing to subsidise fossil fuel use, particularly in the context of international climate change efforts."

The IEA and OECD are continuing their efforts to gather information and develop time-series data bases on production and consumption subsidies. Such databases will be of great practical use to countries with fossil-fuel subsidies, and will enable further analysis of the impacts of reforming such subsidies. The Friends hope that this information will enable more effective transition policies to be put in place, ensuring that reform takes into account the development needs of vulnerable groups. The Friends acknowledge the important contribution of international organisations to effective fossil-fuel subsidies reform.

Civil society has also played an important role in raising awareness of fossil-fuel subsidies and the G-20 Initiative. The Global Subsidies Initiative (GSI) in particular provides important technical expertise and highlights that civil society pressure will be important for the delivery of the G-20 commitment. Given wide-spread public concern about climate change, it is only a matter of time before citizens across the globe question the logic of continuing to subsidize fossil fuel use, particularly in the context of international climate change efforts.

The Friends of Fossil Fuel Subsidy Reform strongly encourage the G-20 to continue its efforts towards meeting its important objective.

ANALYSIS:
Iran makes drastic cuts to subsidies for energy and other goods

In December 2010, the Republic of Iran finally launched a long-awaited program to slash energy, food and water subsidies, in an attempt to rein in unnecessary budgetary spending and eliminate waste. In an interview with state television on December 18, President Mahmoud Ahmadinejad announced that deep cuts to food and fuel subsidies would start the next day and promised to fully cut all subsidies by the end of his term in 2013.

The move is a major change for a country that has a long history of heavily subsidizing its energy and other basic consumer goods. Before the cuts were announced, gasoline sold in Tehran for a mere US$ 0.38 per gallon, compared to over US$ 3.00 per gallon in the United Sates.

The fuel subsidies are widely recognised to have created a culture of overconsumption and waste, costing the government billions of dollars. Last year, the International Energy Agency estimated that Iran had spent US$ 66 billion subsidizing fossil-fuel consumption in 2009, the highest absolute sum spent on such subsidies by any country in the world, and equivalent to over 20% of Iran's total budget.

A number of pressures have come to bear on Iran's decision. Its revenues, highly reliant on oil exports, have been hit in recent years due to oil prices falling from their pre-recession highs, though there has been a recovery on this front in the last few months. The country is also facing four rounds of increasingly tighter UN-authorized economic sanctions from the United States and Europe for its alleged attempts to build nuclear weapons. Iran maintains that its nuclear program is peaceful and that it only seeks to produce energy.

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Subsidy Watch spoke to Hossein Askari, Iran Professor of International Business and International Affairs at the Elliott School of International Affairs at George Washington University, who said that in his opinion sanctions have had an effect on Iran's energy sector for some time – indeed, as far back as 1996, when the U.S. passed the Iran and Libya Sanctions Act (ILSA), imposing economic sanctions on firms doing business with Iran and Libya.

However, Askari added, it has only been in the last three years that sanctions have had an effect on Iran's revenues and economy in the short-term, due to the policy introduced by U.S. Treasury Under Secretary for Terrorism and Financial Intelligence, Stuart Levey, of imposing heavy fines on U.S. and foreign banks engaged in business with Iran in defiance of U.S. sanctions. Credit Suisse, for example, was forced to pay a fine of over US$ 500 million in December 2009.

"In essence, he [Under Secretary Levey] cut off Iran's financial sector from that of the rest of the world and did this also for Iranian government agencies, such as the National Iranian Oil Company, which receives all of Iran's oil revenues," explained Askari. This has made it more costly to do business with Iran, and in effect reduced the oil revenues on which the budget largely depends.

The timing of the cuts has been highly political. In fact the changes were originally proposed by the two previous administrations but never implemented due to fear of a public backlash. The disputed presidential elections in 2008, during which the Iranian government flexed its muscle and showed the public it was willing to use force to put down unrest, may have given the government more confidence to implement the policy now.

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However, Ahmadinejad's government still appears to have feared the public's reaction as late as last fall when it postponed the original launch date which was to be in the second half of the Iranian month of Mehr (September 23 to October 22). The government also announced a plan to provide US$ 40 per month in direct cash payments to eligible Iranians, in order to soften the blow of the subsidy cuts.

The first two monthly cash payments were deposited into the accounts of 60 million Iranians – 90% of the population – in late October. But the money was not made available for withdrawal until the middle of December, shortly before Ahmadinejad's subsidy cut announcement, a move designed to both compensate and mollify the public in anticipation of the price rises.

Many economists recommend the creation of such cash transfer systems when reforming consumption subsidies. Operating in essence on the same basis as many developed countries' social assistance programs, they are economically more efficient, as they do not distort price signals and consumers are free to determine how best to promote their own welfare in accordance with their needs. When combined with sophisticated targeting mechanisms, they can also provide higher levels of support to the poorest at a lower overall cost.

Though Iranian opposition leaders Mir Hossein Mousavi and Mehdi Karroubi have acknowledged the necessity of cutting subsidies, they criticized the timing of the plan on Karroubi's Web site, Saham News, saying: "The country is faced with severe international sanctions, the economy is stagnating, unemployment of higher than 30 percent has spread across the country, and inflation is running wild." They added that, "Implementing the plan at this time is a burden whose pressure will be felt by the middle and lower classes."

According to the Iranian Presidency's website, the price of gasoline was set to rise from US$ 0.38 per gallon to US$ 1.44 per gallon as of December 19, while people using gasoline beyond a 16 gallon per month quota would face additional costs of $2.64 per gallon under a rationing system. The semi-official Mehr News Agency (MNA) reports that the price of bread has tripled and the price of diesel has gone up by 2,000%. The Iranian Labour News Agency (ILNA), citing the economy ministry, reported that monthly household cooking gas charges have increased by more than five-fold, while electricity and water have gone up more than three times.

Some time will have to pass before the dust settles and a clear picture emerges of the impact of the reforms. For the moment though, there have been no reports of major public protests. The extent to which this has been the result of Iran's delays in implementation, the direct cash payments, or the public's unwillingness to react due to 2009's post-election crackdown, is open to

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debate.

The public mood itself is also difficult to gauge at this point due to the lack of credible independent media in Iran. So far, only anecdotal reports have emerged, which on balance suggest that, as expected, the public is not happy with the price increases.

Preliminary data, however, indicates that the price increases are having the desired economic effect. According to

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the MNA, Iran saved over US$ 1 billion in energy costs in the first 15 days after the reforms were implemented. Citing the National Iranian Oil Products Distribution Company, it said that gasoline consumption in the country had declined by about three million liters a day, or 4.5% less than the same period in the previous year, while diesel consumption had declined by 31.7 million liters per day, a 28% reduction.

COMMENTARY:

A lack of critical debate about India's solar energy subsidies?

By Priti Patnaik and Christopher Beaton

This January, Deepak Gupta, the Secretary for India's Ministry of New and Renewable Energy (MNRE), reaffirmed plans to install 20 Gigawatts (GW) of solar power by 2022, calling it "perhaps the biggest target in the world". This follows a number of statements made by Dr Kirit S. Parikh, the author of a government-commissioned report last year, recommending that the country "boost" solar power capacity. Despite the co-benefits of solar power and India's relatively rich solar resource, there are critical questions which few people seem to be asking – what policies will India use to achieve these targets? And are they cost-effective?

India's plans are ambitious. According to the Ministry of Power, around 65% of energy comes from fossil fuels, 22% from large-scale hydropower, 10% from 'renewables' and 3% from nuclear – in absolute terms, renewables contributing roughly 16 GW of the country's 160 GW capacity. MNRE statistics indicate that 72% of the renewable energy supply is made up of wind power, 14% from small hydropower and 14% from biomass, with no information available on installed capacity of solar PV. The latest Renewables Global Status Report estimates that only a few megawatts were being generated in 2008 – essentially negligible. The target is also ambitious by international comparisons. At the end of 2009, the country with the most solar PV installations, Germany, had just under 10 GW installed.

"The biggest barrier to rapid growth in renewable energy technologies, especially in the case of solar power, is the need for further cost reductions."

The biggest barrier to rapid growth in renewable energy technologies, especially in the case of solar power, is the need for further cost reductions. According to the latest government and industry sources, solar thermal power in India costs between INR 13.70−18.80 (US$ 0.31−0.42) per kilowatt hour (kWh) and the cost of solar PV exceeded INR 20 (US$ 0.44) per kWh, as opposed to wind power's INR 3.76−5.64 (US$ 0.08−0.13) per kWh and coal's INR 1.70−2.60 (US$ 0.04−0.06) per kWh. In a 2009 statement, the MNRE recognised that there was a "requirement of preferential tariffs… [and] other fiscal or financial concessions" to make investments commercially attractive, among a number of other challenges, including the intermittency of supply, grid-synchronization limitations and relatively higher capital investment compared to conventional power projects.

Despite the scale of the challenge, it is easy to understand why the government is so keen to place its bets on solar technology. Nearly 30% of the population has no access to power, and electrification is a fundamental step in eradicating poverty and generally improving living standards. Bridging the gap will require a substantial expansion of capacity, predicted to grow four-fold to 640 GW by 2030.

Although coal would be the cheapest solution, it also gives rise to energy security concerns. India already imports 65% of its petroleum and coal, and the government estimates that domestic coal supplies may be exhausted in as little as 40 years. In addition, the government wants to ensure as small a rise as possible in CO_2 emissions per capita. All renewable energy technologies are considered promising

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(with much hope also being placed on nuclear power), but India's high average insolation makes solar power the leading contender among the renewables.

The policy tools that have been chosen to bring about this shift have, however, by and large focused on subsidy mechanisms. Major interventions include:

- **Quota obligations:** In 2009, the National Tariff Policy mandated that each State Electricity Regulatory Commission (SERC) had to specify a renewable energy purchase obligation (known as an RPO), requiring distribution companies to source up to 10% of their power from renewable sources. In the same year, the chairman of the Central Electricity Regulatory Commission (CERC) stated that all SERCs would have to set RPOs at a minimum of 5%, and increase this by 1% for the subsequent 10 years. Plans exist to modify RPOs such that they mandate a specific solar power obligation too. In late 2010, a system was created to allow relatively resource-poor states to meet their targets by buying Renewable Energy Certificates (RECs) from their better endowed neighbours.

- **Feed-in tariffs:** In September 2009, the CERC also published guidelines on which projects it would give feed-in tariffs and how these tariffs would be determined. The system takes into account specific capital, operations and maintenance costs for various technologies, as well as their "useful lives", with payment periods of 13 years for most renewables, but 25 years for solar PV and thermal and 35 years for small hydro. Payments for solar energy in 2009-2010 were set at INR 18.44 (US$ 0.41) per kWh for solar PV and INR 13.45 (US$ 0.30) per kWh for solar thermal, although solar developers can also approach the CERC for a project-specific tariff. In addition to this policy, the IEA reports that a 2008 solar-specific feed-in tariff is still in force, offering rates of INR 12 (US$ 0.26) per kWh for 10 years, capped at a maximum of 10 MW per state and 5 MW per developer. A number of states also run their own, alternative feed-in tariff schemes.

- **Research and development:** The Jawaharlal National Solar Mission – created in 2010 with an aim of reducing solar energy costs such that they are equal to average grid prices by 2022, and coal-based prices by 2030 – plans to create 2−3 large domestic manufacturing parks, to be treated similarly to special export zones, with zero import duties, low-interest loans and a "special incentive package" to promote domestic manufacturers. The government also permits Indian partners to enter into a financial or technical collaboration with foreign investors, automatically approving proposals with up to 100% in foreign equity participation.

A range of other incentives also exist, including tax holidays, accelerated depreciation, nil or concessional excise and customs duties, 'soft refinance facilities' for the banking community and capital subsidies for the electrification of remote villages, as well as mentoring, networking and financial support for SMEs, and some non-subsidy mechanisms, such as creating one-stop application planning processes for renewable energy and removing artificial barriers to their grid connection.

In politics and the press, opinion on the issue seems to be largely in favour of the significant financial support. Unsurprisingly, industry figures are among the most outspoken. Speaking about India's policies to Subsidy Watch, Sourabh Sen, Co-chairman of Astonfield Renewable Resources said that the National Solar Mission "provides the foundation for growth in renewables… [the] short-term targets, budget allocations and favorable feed-in tariffs to ensure this goal is met."

K. Prabhakar, managing partner of Orion Energy Systems, concurred, saying "The feed-in-tariff provision in India is better than providing a capital subsidy to the power plant." A 20-year veteran of the solar industry, he also emphasized the need for a nuanced perspective, arguing that while subsidies were "…the right direction in the long term, especially if transmission and distribution losses bordering on 40% can be minimized," that they should also "be put to good use". With the right bidding methods, he maintained, winning projects can be close to cost-competitive at market lending rates.

Despite industry endorsement for the government's approach to the promotion of solar technology, the apparent lack of critical debate about the cost-effectiveness of subsidies is a surprise and concern, especially considering the large amounts of money involved. A number of questions could and should be asked: on what basis does the Solar Mission believe it can reach grid parity by 2022? Should India put more funds into research and development and wait for prices to fall before it promotes deployment? In the light of recent WTO challenges to China, does India risk challenge under international trade agreements? Over and above policy design, there is also the political fall-out of subsidies to consider – the creation of powerful lobby groups, whose economic importance gives them increasing influence over government policy.

Harish Hande, Managing Director

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and co-founder of SELCO-India, a business that provides sustainable energy solutions to 'under-served' households and businesses, , is one of the few people who spoke out critically to *Subsidy Watch* about the subsidization. He argued that the policy support for solar energy, "…has been drafted in a way that does not meet the needs of the poor. … It does not make sense to apply what succeeded in Germany to India. Feed-in tariffs worked in Germany because homes were suburban… Policymakers in New Delhi are too insulated and did not tap into the expertise of practitioners to come up with a viable subsidy policy. They do not understand the missing links in the industry." Critical of the National Solar Mission in particular, he contended that its emphasis on grid power is likely to be expensive and inefficient, and would probably not meet the needs of the poor. He also claimed that the land requirements of large-scale solar power plants are socially unsustainable.

> *"…the apparent lack of critical debate about these policies is a surprise and concern, especially considering the large amounts of money involved."*

In the meantime, with no larger public debate, and no convincing analysis of the cost-effectiveness of subsidies for solar PV and other renewables, the current trajectory seems set to continue: a comprehensive policy on renewable energy has been firmed up, which aims to raise renewable capacity to 100 GW by 2050.

STUDY:

World Energy Outlook 2010: analysing fossil-fuel subsidies

In November 2010, the International Energy Agency (IEA) published the *World Energy Outlook 2010*, the latest in its annually updated series of projections on energy demand, production, trade and investments, differentiated by fuel and region, until 2035. This edition includes a special focus on fossil-fuel subsidies – assessing the size of consumption subsidies and modelling how their reform would affect energy markets, climate change and government budgets.

The *Outlook* reports significant fluctuations in the economic value of fossil-fuel consumption subsidies depending on the year – US$ 343 billion in 2007, US$ 558 billion in 2008 and US$ 312 billion in 2009 – with international fossil energy prices having the biggest influence on expenditure. It estimates that their reform by 2020 could reduce CO_2 emissions by 2 gigatonnes, amounting to 40% of the additional reductions required between the *Outlook*'s baseline scenario and its 450 ppm scenario, as well as reducing global primary energy demand by 5%.

The study also provides in-depth case studies on Iran, Russia, China, India and Indonesia, outlining for each one the subsidy policies in place and their estimated costs.

The *World Energy Outlook 2010* is available at http://www.worldenergyoutlook.org/ at a cost of €150 per paper copy and €120 per pdf copy. Executive summaries are freely available in a number of languages.

STUDY:

GIZ policy brief on attempted Bolivian fuel price reform

GIZ – formerly known as GTZ – published a policy brief this January, *Fuel Price Reform in Bolivia*, outlining the mistakes that were made in Bolivia's attempts to cut its subsidies over the New Year.

The five-page document provides a brief chronology of events, from the surprise announcement of price increases on 26 December to President Evo Morales' sudden U-turn five days later from. It then analyses the failed reform attempt, concluding, "Everything that could go wrong, went wrong in the implementation of the price hike in Bolivia in December 2010." It summarizes the challenges faced by the country in reforming its subsidies and illustrates how other countries have overcome these challenges with various strategies.

The brief recommends that countries with ad-hoc pricing mechanisms should focus on three dimensions of reform: first, increasing transparency about the composition of prices; second, reforming pricing regulation, moving towards formula-based pricing at regular intervals; and finally, initiating gradual price increases. It argues that price reform takes time – at least 2 years.

Fuel Price Reform in Bolivia is available from the GTZ website: http://www.gtz.de/de/dokumente/giz2011-fuel-price-reform-bolivia-december-2010.pdf

NEWS:

Fossil-fuel subsidies round-up: November and December 2010 and January 2011

Following announcements that fossil-fuel subsidies will be phased out, from the G-20, the Asian-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 November A number of Canadian media outlets, including the *Calgary Herald* and CTV.ca, cover the release of GSI report *Fossil Fuels – At What Cost? Government support for upstream oil activities in three Canadian provinces: Alberta, Saskatchewan, and Newfoundland and Labrador*. The study finds C$ 2.84 billion (US$ 2.88 billion) in oil production subsidies from federal and state sources and estimates that they will lead to a 2% additional rise in Canada's greenhouse gas emissions by 2020. The Canadian government receives criticism later in the week following the release of a Climate Action Network report *Fuelling the Problem*, which documents official memos on how to down-play the country's G-20 agreement to reform its fossil-fuel subsidies, according to newspaper *The Vancouver Sun* and blog Nature Canada.

8 November *The Sydney Morning Herald* reports criticism of the state government's decision to sell below-cost coal to government-run generators. The agreement would guarantee coal at A$ 32 a tonne instead of its current market price of A$ 44 a tonne (A$ prices roughly one-to-one with US$), and keep prices fixed for 17 years. Australia is one of the G-20 countries that has committed to phase out its fossil-fuel subsidies.

9 November The International Energy Agency (IEA) publishes the *World Energy Outlook 2010*, providing a detailed analysis of fossil-fuel subsidies and calling for their phase out, reports a number of news outlets including the BBC, newspaper *The Globe and Mail* and energy blog The Energy Collective. The IEA estimates that US$ 312 million was spent on fossil-fuel subsidies in 2009 and argues that their reform would be the quickest way to control energy demand and reduce carbon emissions.

9 November NGOs Oil Change International and Earth Track release a joint report *G20 Fossil-Fuel Subsidy Phase Out: A review of current gaps and needed changes to achieve success*, reports *The Economist* and Washington newspaper *The Hill*'s E2 Wire blog. The study finds that no country has initiated a subsidy reform specifically in response to the G-20 commitment and that many of the reported reform policies were in-process prior to the G-20 commitment.

10 November According to news website Bloomberg Business Week, Iran announces that it has paid US$ 14.7 billion into bank accounts for 20 million families as compensation for its upcoming cuts to fossil-fuel and other subsidies. Each family member is said to have received two months worth of US$ 40 payments that they cannot withdraw until the subsidies are removed.

12 November The G-20 Summit in Seoul concludes with leaders reaffirming their commitment to phase out fossil-fuel subsidies and tasking the IEA, World Bank, OECD and OPEC to report on progress at the 2011 Summit in France.

21 November A senior official in the Iranian government states that gasoline subsidies will be maintained until at least the end of the year, according to the World Tribune and Reuters news agency. Subsidies were originally due to have been cut in September. In an interview later in the week, Iranian President Mahmoud Ahmadinejad assures that the policy will "improve the living standards of low income families".

22 November Bahrain's Oil and Gas Affairs Minister and Chairman of the National Oil and Gas Authority, Dr. Abdulhussain Mirza, states that fuel subsidies cannot be continued indefinitely and should be redirected to benefit those most in need, reports the *Tehran Times*. The Minister states that subsidies are US$ 500 million a year and rising. Two days later, news website Trade Arabia reveals that the General Federation of Bahrain Trade Unions has decided to launch a national alliance to influence government decisions on redirecting subsidies.

2 December The Indonesian government announces that it is preparing plans to restrict fuel subsidies to motorcycles, public transport, fishermen and vehicles manufactured before 2005, with implementation to begin from 1st January 2011, reports news website Bloomberg. In an editorial, *The Jakarta Post* criticises the initiative for being mismanaged, stating that "the government has yet to decide on a scheme and propose it to the House of Representatives" and that no technical details have been released to prepare fuel distributors or consumers. *The Jakarta Globe* adds that the Employers Association of Indonesia has spoken out against the policy.

3 December The Malaysian government increases fuel prices by

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1.6 US$ cents as part of its ongoing subsidy cuts, reports news agency AFP. A minister in the Prime Minister's department, Idris Jala, says that it will result in savings of 1.18 billion ringgit (US$ 0.4 billion). Several weeks later, newspaper *The Star Online* summarizes the year's price reforms as part of a retrospective on 2010.

9 December Petroleum Secretary S. Sundareshan says that India will soon make a decision on raising diesel prices, according to online newspaper livemint.com. Finance ministry officials are rumoured to be considering an increase of INR 2 (US$ 0.04) per liter. The government has vacillated on how to price diesel since gasoline subsidies were reformed last year, at which time pledges were also made to eventually reform diesel subsidies.

10 December European Union economy ministers formally decide that the final deadline for coal mine operating subsidies will be 31 December 2018, approximately four years longer than the deadline first proposed in July. According to the *Financial Times*, the extension was principally influenced by Germany, which lobbied for the European framework to fit its own subsidy scheme that had provisionally set a 2018 end-point. This extension is to be the last and, as of 2011, all aid is to be used for closing mines and not maintaining access. As a G-20 member, the EU has committed to phase out and rationalize fossil-fuel subsidies.

14 December A Finnish biogas development program sends out a press release, publicizing a decision by the Finnish government to adopt a 'green energy taxation' package that increases taxes on fuels for power and heat production, but exempts gasoline and diesel used for transport, despite covering other transport fuels such as biogas and natural gas.

14 December The Indonesian parliament approves a plan to prevent private cars from using subsidized fuel, but pushes back its implementation to March, reports Reuters news agency and news website Bloomberg. State oil company Pertamina responded to criticism over a lack of preparation, saying it was ready to provide the necessary infrastructure, according to the *Jakarta Globe*.

19 December At the Cancun climate talks, Tim Groser, New Zealand Minister Responsible for International Climate Change Negotiations, convenes a meeting for ministers of small- and medium-sized countries in support of fossil-fuel subsidy reform, announces a statement on the official website of the New Zealand Government. The group, 'The Friends of Fossil Fuel Subsidy Reform', hopes to support the G-20, APEC and others in their efforts to reform. (For more information, see the article 'The Friends of Fossil Fuel Subsidy Reform: Supporting the G-20 and APEC Commitments' in this issue of *Subsidy Watch*.)

19 December Iran begins cutting the subsidies it provides to a range of goods, with events being covered by a wide variety of news sources, including the *Washington Post*, AFP news agency, CNN and news website Bloomberg. Prices for gasoline rise from IRR 1,000 to IRR 4,000 (around US$ 0.10 to US$ 0.39) for the first 60 liters purchased each month, and then IRR 7,000 for all purchases thereafter (around US$ 0.68). No public protests are reported although a number of sources mention a heavy police presence on the streets of Tehran. Several days later, the *Washington Post* reports that a number of spontaneous strikes among truck drivers take place in several cities. The Iranian news channel Press TV reports government claims that gasoline consumption fell by 10.6 million liters the day the price rises took place. By the end of the week, government figures report daily consumption of 55 million litres, a 5 million litre decrease from the previous rate of 60 million litres a day, according to new agency AFP. (For more information, see the article 'Iran makes drastic cuts to subsidies for energy and other goods' in this issue of *Subsidy Watch*.)

26 December According to The *Himalayan Times*, the government of Nepal is considering a "subsidy package for essential fuels" that would reimburse households, students and farmers by fixed amounts for purchase of cooking gas cylinders, kerosene and diesel. The package is intended to compensate for recent fuel-price rises.

26 December In a television address, Bolivian Vice-President Álvaro García Linera makes the surprise announcement that all gasoline and diesel subsidies will be immediately removed. The ensuing controversy is covered by a wide range of news sources, including the *Latin American Herald Tribune*, CNN, Reuters news agency, the *Tehran Times* and international blogging community Global Voices. With the price of diesel rising 83% to US$ 0.96 per litre, low-octane petrol 75% to US$ 0.90 and high-octane petrol 57% to US$ 1.04, transport and teachers' unions announce an open-ended strike and plan protests in the country's major cities alongside other groups. Days later, President Evo Morales defends the decision on the grounds that Bolivia spent US$ 380 million on subsidized fuel in 2010 and that much of its low-cost fuel is smuggled abroad, according to CNN. He

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commits to spend the saved money on education, health, security and increasing the minimum wage.

31 December Various news sources report that Bolivian President Evo Morales revokes the decision to end fuel subsidies late on New Year's Eve, including the *Latin American Herald Tribune*, the *Los Angeles Times* and news agency Bolivia Weekly. Morales cites the "recommendations of the workers and the social organizations" for the turn-around, saying that the move "is not opportune". Later in the month, German development organisation GIZ publishes an analysis of the attempted fuel price reform, blaming the ad hoc nature of the move for its failure.

1 January Pakistan increases the price of gasoline 9.0% to PKR 79.67 (US$ 0.93), light diesel by 6.5% to PKR 70.97 and kerosene oil 5.7% to PKR 74.99, according to the *Wall Street Journal*. The move was taken because of rising international fuel prices. According to a *Time* article later in the week, these reforms are quickly reversed due to opposition from junior coalition partners and opposition parties.

5 January In stark contrast to the previous month's decision to reform fossil-fuel subsidies, the Bolivian government announces that it will reimburse 100% the cost of successful exploratory drilling by private oil and natural gas companies, reports Fox News Latino. State-owned energy company Yacimientos Petroliferos Fiscales Bolivianos (YPFB) says it is also considering increasing the amount the oil companies receive per barrel – currently only $10, as opposed to the US$ 90 international market price.

10 January Deaths are reported as Chileans protest against a planned 16.8% increase in natural gas prices, reports the Christian Science Monitor new website. According to the *Latin American Herald Tribune*, the activity has been focused in the Magallanes area, where Chile's only gas wells are located and cold temperatures make households particularly dependent on energy subsidies.

15 January Vietnam's Ministry of Finance compensates gasoline dealers for losses due to rising international oil prices, increasing the total subsidy to VND 1,600 (US$ 0.86) per litre, reports national daily the *Viêt Nam News*. The leading petroleum distributor complains that importers and dealers are still losing VND 800−900 (US$ 0.41−0.46) per litre of petrol

16 January Syria increases its heating oil subsidy for public workers by 72% in reaction to the President of Tunisia being driven from power, reports Reuters news agency. The same article notes that Jordan has also announced fuel price decreases, as part of a US$ 225 million package of subsidies. The subsidies were described in detail a few days earlier by *The Jordan Times*.

17 January Adnan Amin, the head of the International Renewable Energy Agency (IRENA), based in the United Arab Emirates (UAE), calls on countries around the world to address fossil-fuel subsidies, reports news website Arabian Business.com. This follows a story by business magazine Kipp Report earlier in the week that UAE fuel retailer Emarat has had to increase the amount it can legally borrow to 50% of its capital, because fuel prices do not allow it to cover costs. The article states that the UAE began to phase out its gasoline subsidies in April last year.

18 January According to Reuters news agency, the government of Chile agrees to scale back natural gas price increases, from the planned 16.8% to only 3%.

25 January Russian Prime Minister Vladimir Putin says that RUB 24.6 billion (US$ 826 million) of subsidies will be paid over the next three years for domestic gas supplies from Sakhalin Island, according to news website Bloomberg.

25 January Moroccan Communications Minister Khalid Naciri says that the government will keep prices stable "at any price" in 2011, as protests continue to flare in Algeria, Egypt and Yemen following the stepping down of Tunisia's prime minister earlier in the month, reports Reuters news agency.

26 January In his State of the Union address, United States President Barack Obama asks Congress "to eliminate the billions in taxpayer dollars we currently give to oil companies". Days later, oil companies say this policy would be discriminatory, according to news website Daily Finance. The Obama government has already proposed cutting oil subsidies in two previous budgets, each time being rejected by the House of Representatives.

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*