



OECD ACTIVITIES TO IMPROVE TRANSPARENCY ON FOSSIL-FUEL AND OTHER SUBSIDIES

Ronald Steenblik, Special Counsellor,
Fossil-Fuel Subsidy Reform, OECD

82nd Session of the OECD Steel Committee
Paris, 23-24 March 2017



WHY MEASURE AND CLASSIFY GOVERNMENT SUPPORT?

Data and analysis form necessary, early steps to reforming subsidies

- **Political will:** admit that certain subsidies might be causing problems.
- **Data:** develop a common understanding of the magnitude and nature of the subsidies.
- **Analysis:** understand the effects of subsidies, and their reform, on economic, social, and environmental indicators.
- **Case studies:** facilitate learning from the lessons of past examples of reform.
- **Advice:** develop realistic reform plans that address the needs of the poorest.
- **Peer support:** undertake international collective action, to lend legitimacy to domestic action.

OECD work related to government support

❖ **Agriculture (TAD)**

- On-line database
- Country case studies, and monitoring process and reports

❖ **Fisheries and aquaculture (TAD)**

- On-line database
- Biennial report, with some policy descriptions

❖ **Fossil fuels (TAD)**

- On-line database, with some policy descriptions.
- Peer reviews for the G20.

❖ **Non-energy minerals and metals (TAD) — Literature review**



- **Origin:** First estimates published in mid-1980s (going back to 1979).
- **Motivation:** Trade effects, market distortions.
- **Coverage:** Expanded over time and now covers all 35 OECD member economies (but the EU as a whole), plus 11 of the world's leading (non-OECD) agricultural producers.
- **Resources:** 23 country desks officers (each handling several countries), working at least 2 months a year; one full-time coordinator; other support staff; contracts with local experts.
- **Classification:** Economic incidence and form of transfer.
- **Limitations:** Not all support to irrigation is quantified.

Fisheries and aquaculture



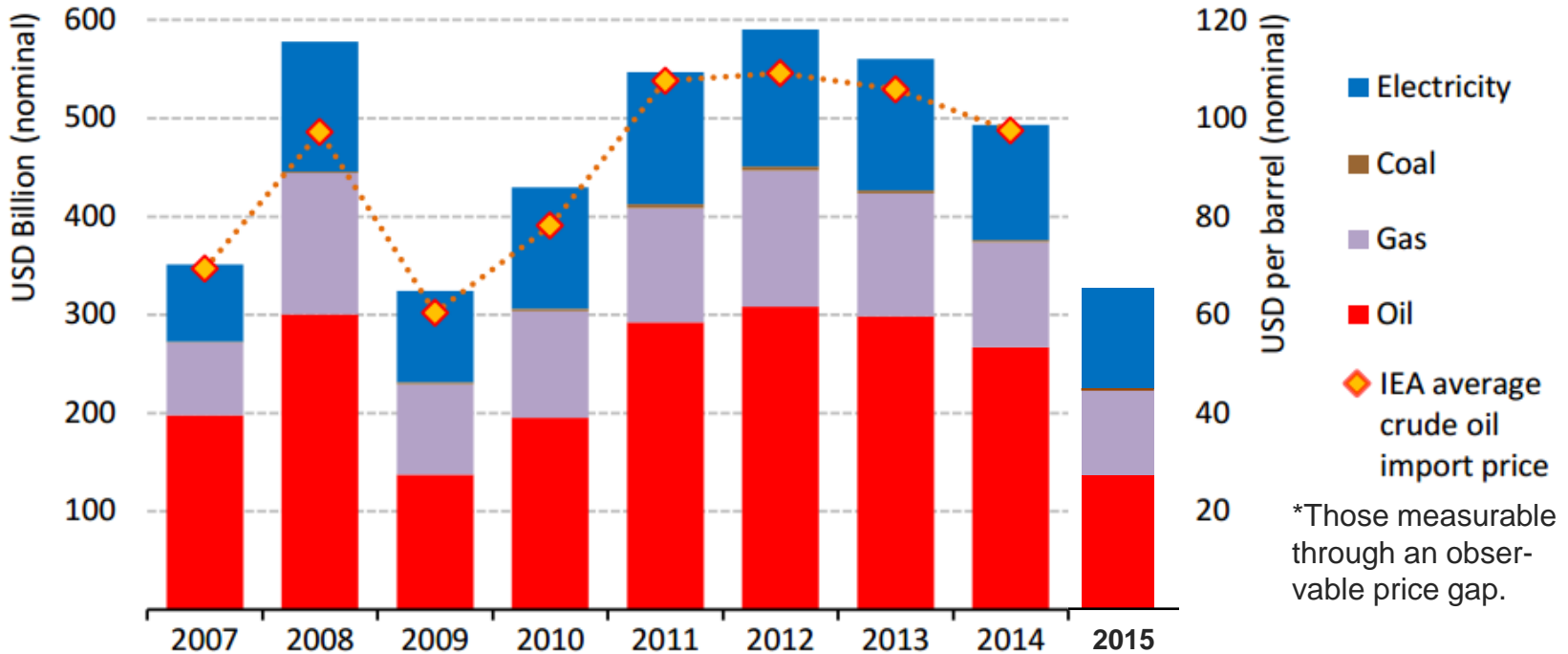
- **Origin:** Estimates of government support for fisheries first began to be collected in a systematic, internationally comparable way in the late 1990s.
- **Motivation:** Effects on fish resources, especially over-fishing.
- **Coverage:** Expanded over time and now covers 27 individual member economies, plus 4 non-member economies. (The OECD is in the process of expanding this coverage even further.)
- **Resources:** 2 full-time.
- **Classification:** Organised by potential effects on fishing capacity and effort (however, actual effects depend on fishing regulations).
- **Limitations:** Available only for the sector as a whole, not by fishery; and market price support (MPS) is not estimated.

Fossil fuels



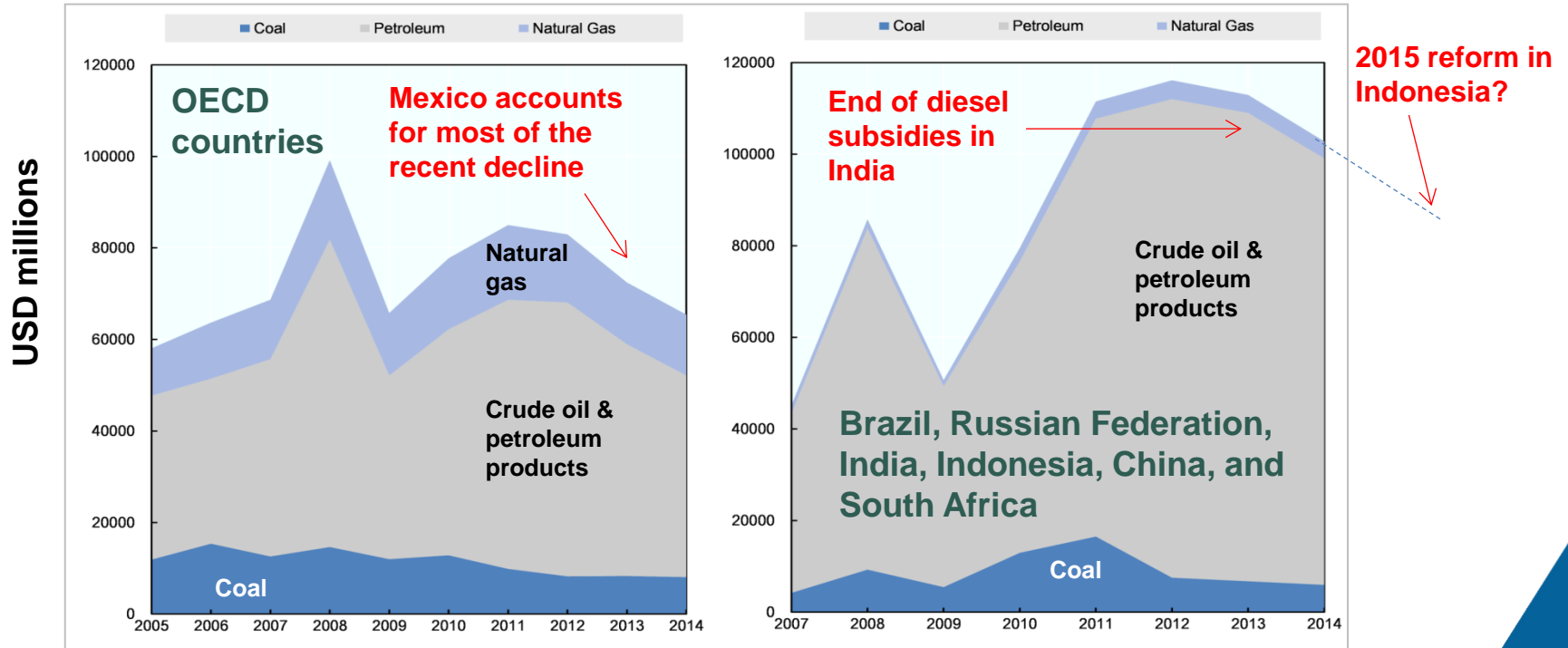
- **Origin:** First estimates (dating back to 2005 or earlier) published in 2011.
- **Motivation:** Inform reform efforts (to save money and help achieve climate objectives), especially at the level of the G20; complement IEA data on market transfers to consumers (i.e., subsidies through under-pricing).
- **Coverage:** Expanded over time and for the 2017 update will cover all 35 OECD member countries, plus Argentina and the BRIICS.
- **Resources:** 1 full-time statistician, plus 8-10 external consultants, and 2-3 analysts for part of the year.
- **Classification:** economic incidence and form of transfer, by fuel.
- **Limitations:** Does not yet cover the subsidy-equivalent values of credit-related support, such loan guaranties and concessional loans.

The OECD's complement the IEA's estimates of global fossil-fuel consumption subsidies*



Sources: IEA (2015 & 2016), *World Energy Outlook*, OECD/IEA, Paris.

The OECD's latest estimates of fossil-fuel support in OECD countries and the BRIICS



Sources: OECD (2015), *OECD Companion to the Inventory of Support Measures for Fossil Fuels 2015*, OECD Publishing, Paris.

OECD Subsidy matrix

Statutory or Formal Incidence (to whom and what a transfer is first given)

	Production							Direct consumption	
	Output returns	Enterprise Income	Cost of intermediate inputs	Costs of production factors				Unit cost of consumption	Household or enterprise income
				Labour	Land and natural resources	Capital	Knowledge		
Direct transfer of funds	Output bounty or deficiency payment	Operating grant	Input-price subsidy	Wage subsidy	Capital grant linked to acquisition of land	Capital grant linked to capital	Government R&D	Unit subsidy	Government-subsidized life-line electricity rate
Tax revenue foregone	Production tax credit	Reduced rate of income tax	Reduction in excise tax on input	Reduction in social charges (payroll taxes)	Property-tax reduction or exemption	Investment tax credit	Tax credit for private R&D	VAT or excise-tax concession on fuel	Tax deduction related to energy purchases that exceed given share of income
Other government revenue foregone			Under-pricing of a government good or service		Under-pricing of access to government land or natural resources; Reduction in resource royalty or extraction tax		Government transfer of intellectual property right	Under-pricing of access to a natural resource harvested by final consumer	
Transfer of risk to government	Government buffer stock	Third-party liability limit for producers	Provision of security (e.g., military protection of supply lines)	Assumption of occupational health and accident liabilities	Credit guarantee linked to acquisition of land	Credit guarantee linked to capital		Price-triggered subsidy	Means-tested cold-weather grant
Induced transfers	Import tariff or export subsidy	Monopoly concession	Monopsony concession; export restriction	Wage control	Land-use control	Credit control (sector-specific)	Deviations from standard IPR rules	Regulated price; cross subsidy	Mandated life-line electricity rate

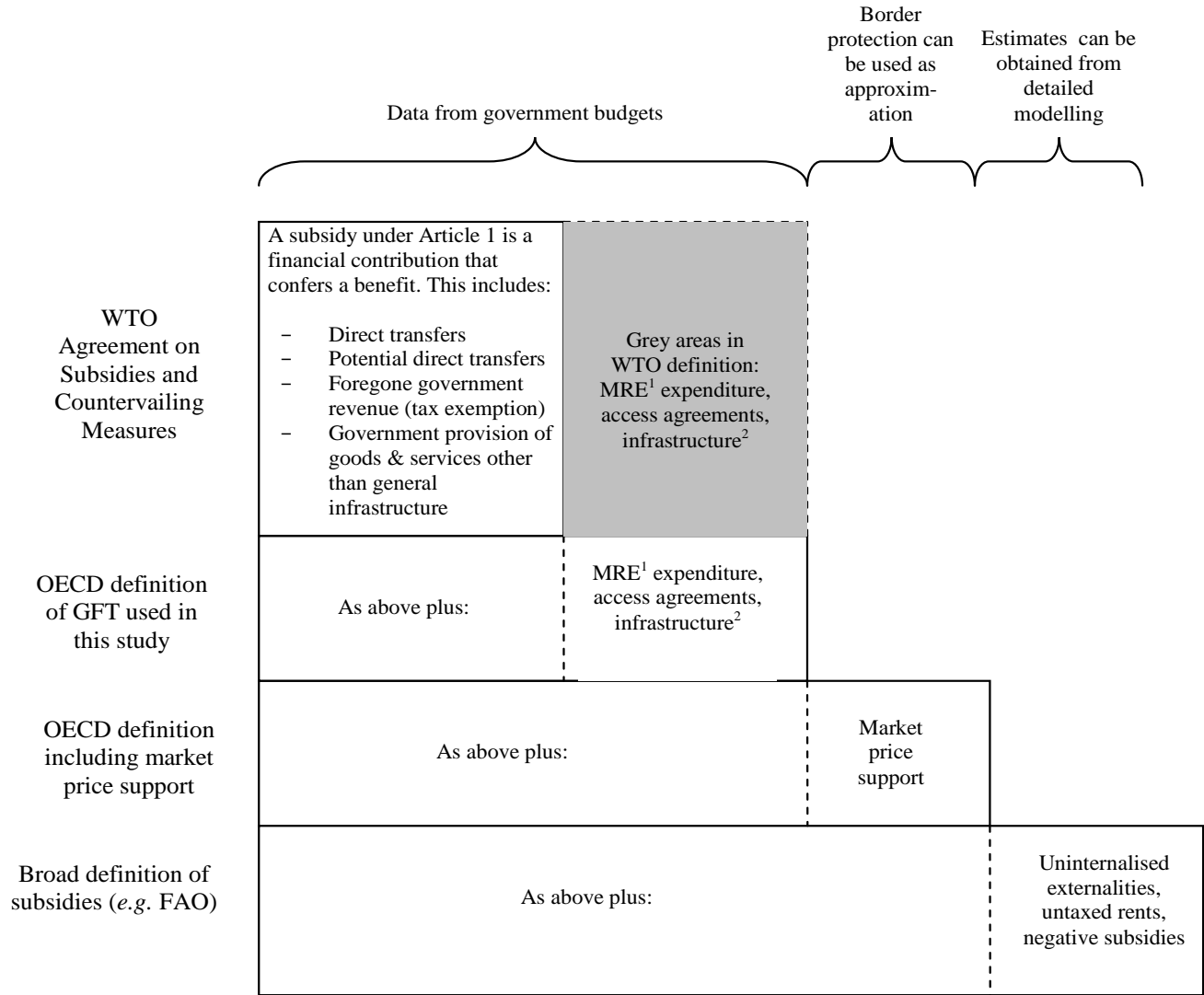
Transfer Mechanism (how a transfer is created)

» Are sectoral estimates using the same definitions?

Concerning “subsidy”:

- The OECD uses a definition that is consistent with the WTO definition in the ASCM, which requires that there be a financial contribution by a government that confers a benefit and (a) involves (i) a direct transfer of funds (e.g. grants, loans, and equity infusion), potential direct transfers of funds or liabilities (e.g. loan guarantees); (ii) foregone government revenue (e.g. tax credits); (iii) government-provided goods or services other than general infrastructure; or (b) income or price support (in the sense of Article XVI of GATT 1994).
- However, the WTO definition does not cover price support conferred to producers by import tariffs. OECD estimates measure those for agriculture.
- Some other organisations (e.g., IMF and FAO) include, or have proposed including, estimates of non-internalised externalities.

An example from fisheries



What about notifications to the WTO?

- WTO members (+160) at last count are required to notify subsidies with a potential to affect trade on a regular basis.
- Enforcement of this requirement is weak, however. The result is laxity.
- As of October 2016, for example:
 - 89 members had not notified their fisheries subsidies for 2015
 - 63 members had not notified their fisheries subsidies for 2013
 - 57 members had not notified their fisheries subsidies for 2011
- In total, some 700 notifications were overdue.
- Many of these members “either have never notified or have done so only in the distant past”, according to the Chair of the Committee on SCM.

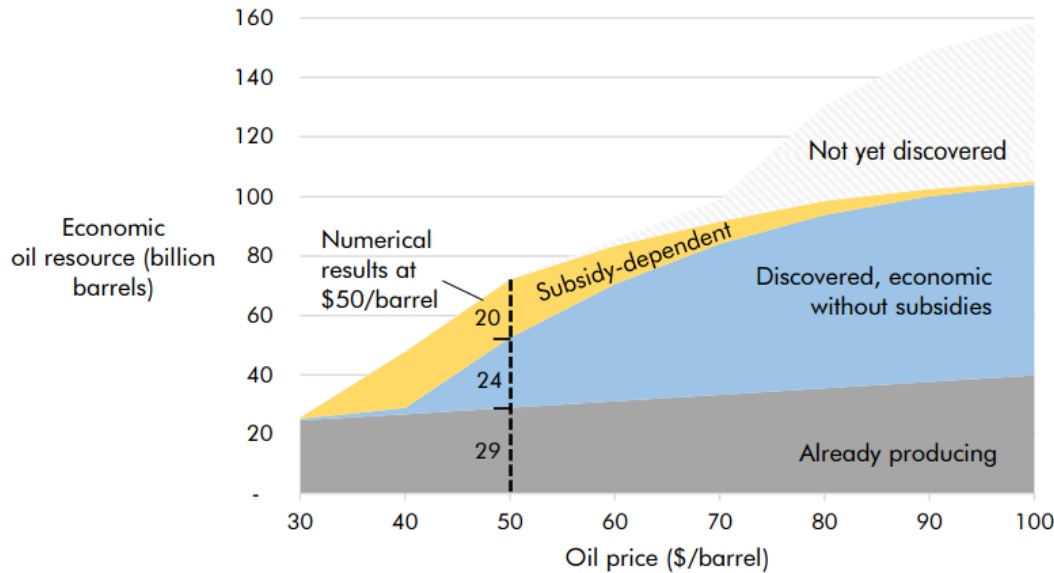


Modelling of effects

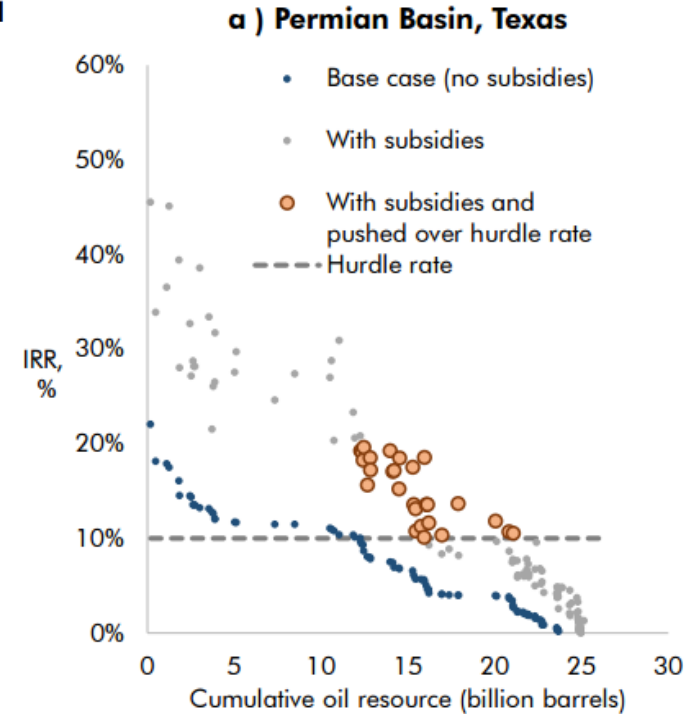
- Some large-scale modelling has been done of particular emissions (e.g., N) from **agriculture**, or changes in land use. But much work remains to be done to accurately model GHG emissions.
- Very little empirical analysis of the effects of **fishing** subsidies on changes in the resource, or on environmental parameters. Most studies are small-scale.
- There has been much more work on the effects of **fossil-fuel consumption subsidies**, and of their phasing out. CGE models at the global scale show reductions in GHG emissions of 8-15% (depending on the forecast year and various assumptions).
- Quantitative analysis of the effects of fossil-fuel production subsidies is in its beginning stage, and has concentrated on particular hydrocarbon fields.

Examples of analysis based on OECD data

Figure 2: Share of U.S. oil resources that are subsidy-dependent as a function of oil prices



Note: The chart assumes a 10% hurdle rate.



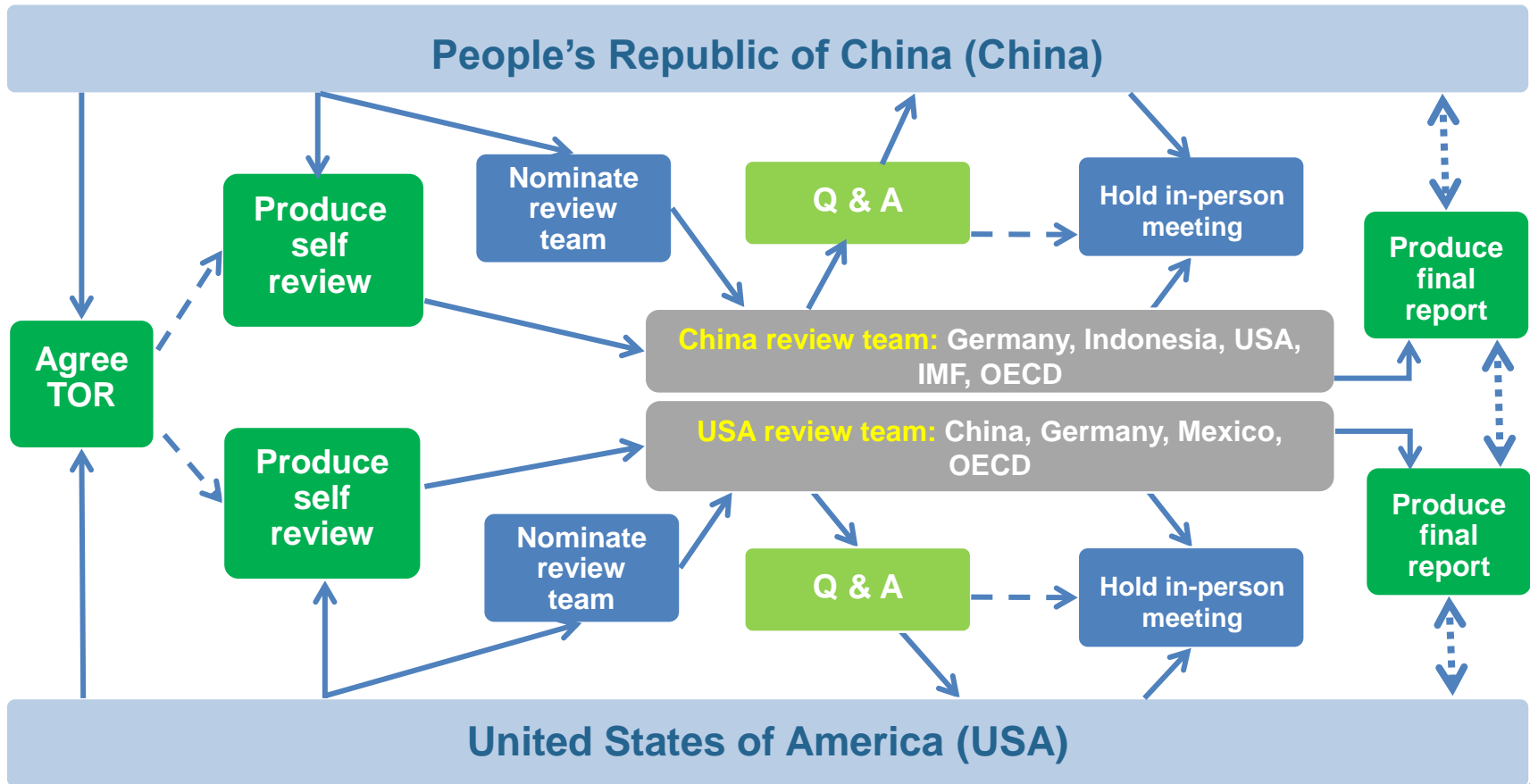


G20 PEER REVIEWS OF INEFFICIENT FOSSIL FUEL SUBSIDIES

The G20 voluntary peer reviews

- This led in December 2013 to a joint announcement by the People’s Republic of China and the United States of America that the two countries would undertake a reciprocal peer review of their fossil-fuel subsidies under the G20 process.
- Other countries—Germany, Mexico, Indonesia, and Italy —have since joined China and the United States in agreeing to undertake peer reviews of their own under the G20.
- A similar exercise is taking place in the context of APEC, with Peru, New Zealand, the Philippines, and Chinese Taipei each having already undergone a peer review of their subsidies between March 2014 and September 2016, and Viet Nam and Brunei Darussalam have also volunteered to undertake APEC peer reviews.

The G20 voluntary peer-review of FFS process





Voluntary peer reviews: vehicles for knowledge transfer and support between G20 countries

- Participation in a peer reviews encourages a country to think about the sequencing of reform, and what it can commit to publicly.
- The self reviews, and the peer reviews themselves have been more detailed or covered more policies, or both, than the progress reports.
- Preparing for the reviews can be a salutary learning experience for both the country under review (including across ministries) and the peer reviewers.
- There has been an element of precedent-setting in both the structure and conduct of the reviews, and in what types of policies were discussed and how they were discussed.
- A common understanding of what is meant by terms like “subsidy” and “inefficient” is likely to emerge.

How to improve and build on the PR process?

- Agree a target phase-out date for “inefficient fossil-fuel subsidies”
- Consult with trade experts, in addition to experts from finance and energy ministries.
- Establish a mechanism for monitoring follow-up to the peer reviews.
- Establish peer-review processes for economies that are not members of either APEC or the G20.
- Develop common criteria for ranking different types of policies (or combinations of policies) for reform.

Contact us

We look forward to answering any questions you may have!



Ronald.Steenblik@oecd.org