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
Agriculture

• **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*

*Those measurable through an observable price gap.

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

Mexico accounts for most of the recent decline

End of diesel subsidies in India

Crude oil & petroleum products

Brazil, Russian Federation, India, Indonesia, China, and South Africa

## OECD Subsidy matrix

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

<table>
<thead>
<tr>
<th>Output returns</th>
<th>Enterprise Income</th>
<th>Cost of intermediate inputs</th>
<th>Production</th>
<th>Costs of production factors</th>
<th>Direct consumption</th>
<th>Household or enterprise income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct transfer of funds</td>
<td>Output bounty or deficiency payment</td>
<td>Operating grant</td>
<td>Wage subsidy</td>
<td>Capital grant linked to acquisition of land</td>
<td>Government R&amp;D</td>
<td>Unit subsidy</td>
</tr>
<tr>
<td>Tax revenue credit</td>
<td>Reduced rate of income tax</td>
<td>Reduced in excise tax on input</td>
<td>Reduction in social charges (payroll taxes)</td>
<td>Property-tax reduction or exemption</td>
<td>Investment tax credit</td>
<td>Tax credit for private R&amp;D</td>
</tr>
<tr>
<td>Other government revenue foregone</td>
<td>Under-pricing of a government good or service</td>
<td>Under-pricing of access to government land or natural resources; Reduction in resource royalty or extraction tax</td>
<td>Government transfer of intellectual property right</td>
<td>Under-pricing of access to a natural resource harvested by final consumer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer of risk to government</td>
<td>Government buffer stock</td>
<td>Third-party liability limit for producers</td>
<td>Provision of security (e.g., military protection of supply lines)</td>
<td>Assumption of occupational health and accident liabilities</td>
<td>Credit guarantee linked to acquisition of land</td>
<td>Credit guarantee linked to capital</td>
</tr>
<tr>
<td>Induced transfers</td>
<td>Import tariff or export subsidy</td>
<td>Monopoly concession</td>
<td>Monopoly concession; export restriction</td>
<td>Wage control</td>
<td>Land-use control</td>
<td>Credit control (sector-specific)</td>
</tr>
</tbody>
</table>

[10] Trade and Agriculture Directorate | Organisation for Economic Co-operation and Development (OECD) | [www.oecd.org/tad](http://www.oecd.org/tad) | [tad.contact@oecd.org](mailto:tad.contact@oecd.org)
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

WTO Agreement on Subsidies and Countervailing Measures

OECD definition of GFT used in this study

OECD definition including market price support

Broad definition of subsidies (e.g. FAO)

A subsidy under Article 1 is a financial contribution that confers a benefit. This includes:
- Direct transfers
- Potential direct transfers
- Foregone government revenue (tax exemption)
- Government provision of goods & services other than general infrastructure

Grey areas in WTO definition:
MRE\(^1\) expenditure, access agreements, infrastructure\(^2\)

As above plus:
MRE\(^1\) expenditure, access agreements, infrastructure\(^2\)

As above plus:
Market price support

As above plus:
Uninternalised externalities, untaxed rents, negative subsidies

Data from government budgets

Border protection can be used as approximation

Estimates can be obtained from detailed modelling

Trade and Agriculture Directorate | Organisation for Economic Co-operation and Development (OECD) | www.oecd.org/tad | tad.contact@oecd.org
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

People’s Republic of China (China)

- Agree TOR
- Produce self review
- Nominate review team
- Q & A
- Hold in-person meeting

China review team: Germany, Indonesia, USA, IMF, OECD

United States of America (USA)

- Agree TOR
- Produce self review
- Nominate review team
- Q & A
- Hold in-person meeting

USA review team: China, Germany, Mexico, OECD

- Produce final report
- Produce final report
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