OECD Inventory of Support Measures for Fossil Fuels 2023

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The publication of this booklet has been authorised by Marion Jansen, Director of the Trade and Agriculture Directorate, and Jo Tyndall, Director of Environment Directorate.

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Comments are welcome and should be sent to tad.contact@oecd.org.The *OECD Inventory of Support Measures for Fossil Fuels* database: https://www.oecd.org/fossil-fuels/.

Note on the Methodology

This Policy Brief draws upon the 2023 update of the Inventory of support measures for fossil fuels covering 48 countries. The following methodological caveats should be noted.

Aggregate numbers from the Inventory represent the fiscal cost of support measures for fossil fuels. They should not be interpreted as a level of support for fossil fuels, nor as an indicator of the extent to which the considered policies are favourable or unfavourable to climate mitigation.

The Inventory reports tax expenditures as estimates of revenue foregone due to measures that reduce or postpone tax payments relative to a jurisdiction's benchmark tax systems to the benefit of fossil fuels producers or users. Tax expenditure estimates can thus increase over time due to either an increase in the offered concession (relative to benchmark tax systems) or an increase in the benchmark itself. Cross-country comparisons of tax expenditures can also be misleading due to differences in countries' benchmark tax systems.

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OECD Inventory of support measures for fossil fuels: 2023 update

Key messages

- Despite commitments to scale up and speed up climate action, the fiscal cost of government support for fossil fuels almost doubled in 2022 to reach more than USD 1.4 trillion as governments across the OECD and partner countries introduced substantial initiatives to mitigate high energy costs on households and firms, caused in part by Russia's war of aggression against Ukraine.
- This rising trend is a real threat to our collective net zero goals and highlights the challenges of staying on track with net zero commitments in the face of geopolitical and economic disruptions.
- Most measures resulted in support for the production and consumption of fossil fuels, but lacked systematic targeting towards those in greatest need.
- The fiscal cost of support to fossil fuels for residential use experienced the largest increase of all sectors (154%) representing efforts to shield end-users from high prices of gas and electricity. The fiscal cost of support for residential use increased to USD 125.7 billion in 2022, from USD 49.5 billion in 2021. The residential sector now represents the largest share (29%) of the overall fiscal cost of support measures in OECD and partner countries equalling transportation (29%).
- The fiscal cost of fossil fuel support to manufacturing and other industries also experienced an increase of 122% to USD 84.2 billion in 2022, up from USD 37.9 billion in 2021. Support for fuel consumption by manufacturing and other industries now represents 20% of the overall fiscal cost of support measures in OECD and partner countries.
- Going forward, it will be critical that support measures are reformed to better target those most in need. Support for fossil fuels should also be phased out as soon as possible. This will help free up much needed resources for the transition towards net zero emissions and accelerate innovation to improve energy efficiency.
- The costs of inaction are high, so countries need to reaffirm and act on their SDG commitment to phase out and reform inefficient support to fossil fuels to better align fiscal policy with climate goals.

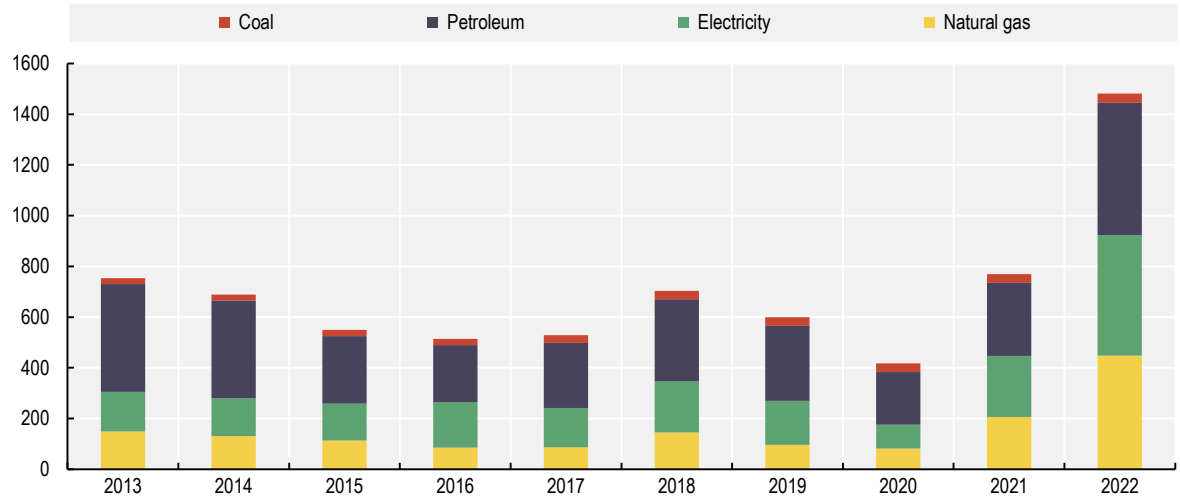
The fiscal cost of government support for fossil fuels almost doubled in 2022 as governments sought to cushion exceptionally high energy prices

New OECD and IEA data show that the fiscal cost of global support for fossil fuels almost doubled to USD 1 481.3 billion in 2022, up from USD 769.5 billion in 2021, as governments instituted measures to offset exceptionally high energy prices, driven in part by Russia's war of aggression against Ukraine.

The *OECD Inventory of Support Measures for Fossil Fuels* (hereafter, the Inventory) estimates that direct transfers and tax expenditures associated with support measures for fossil fuels amounted to USD 427.9 billion in 2022. In addition, the IEA calculates that fossil fuels sold below market prices amounted to USD 1 126.6 billion.[1] Increases were significant across petroleum, electricity and natural gas (Figure 1)

Figure 1. Fiscal cost of support for fossil fuels almost doubled in 2022, with significant increases across petroleum, electricity and natural gas

OECD-IEA combined estimate of the fiscal cost of support measures for fossil fuels (82 economies), by fuels (in USD billion)



1) The OECD-IEA combined estimate covers 82 countries, resulting from merging IEA price-gap estimates and OECD Inventory estimates of the fiscal cost of support measures for fossil fuels. Countries included in the calculations are: Algeria, Angola, Argentina, Armenia, Australia, Austria, Azerbaijan, Bahrain, Bangladesh, Belgium, Bolivia, Brazil, Brunei Darussalam, Canada, Chile, People's Republic of China (hereafter 'China'), Colombia, Costa Rica, Croatia, Czech Republic, Denmark, Ecuador, Egypt, El Salvador, Estonia, Finland, France, Gabon, Georgia, Germany, Ghana, Greece, Hungary, Iceland, India, Indonesia, Iraq, Ireland, Islamic Republic of Iran, Israel, Italy, Japan, Kazakhstan, Korea, Kuwait, Latvia, Libya, Lithuania, Luxembourg, Malaysia, Mexico, Moldova, Netherlands, New Zealand, Nigeria, Norway, Oman, Pakistan, Poland, Portugal, Qatar, Russia, Saudi Arabia, Slovak Republic, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Chinese Taipei, Thailand, Trinidad and Tobago, Türkiye, Turkmenistan, Ukraine, United Arab Emirates, United Kingdom, United States, Uzbekistan, Venezuela, Viet Nam.
2) Fiscal cost of support for the fuel "Electricity" is derived from measures providing support for electricity generation or consumption (e.g. through regulated electricity tariffs for end-users). Estimates only include the fossil fuel share in electricity generation (i.e. excluding renewables and other non-fossil fuel sources). Measures supporting electricity generation technology based on a specific fossil fuel (used as an input) are categorised under this fuel (i.e. petroleum, coal, or natural gas).
3) Fiscal cost of support measures for fossil fuels included in the Inventory are based on information reported by countries through official documentation (e.g. budget reports). Support measures for which such information is not available are excluded from the aggregate amount reported in this report. In addition, support measures in certain countries may not have been exhaustively identified.
4) The Inventory reports tax expenditures as estimates of revenue that is foregone due to a particular feature of the tax system that reduces or postpones tax payments (relative to a jurisdiction's benchmark tax system) to the benefit of fossil fuels' producers or users. Hence, (i) tax expenditures estimates can increase over time either because of greater concessions (relative to the benchmark tax system) or because of an increase in the benchmark itself; (ii) cross-country comparisons of tax expenditures can be misleading due to country-specific benchmark tax systems.
5) Individual support measures for fossil fuels are included in the Inventory without reference to their economic or environmental effects. No judgment is therefore made as to whether such measures are inefficient or ought to be reformed.
6) Data are expressed in constant 2022 US dollars. Data for 2022 are on a preliminary basis.
Sources: OECD Inventory of support measures for fossil fuels and IEA Fossil Fuel Subsidies Database.

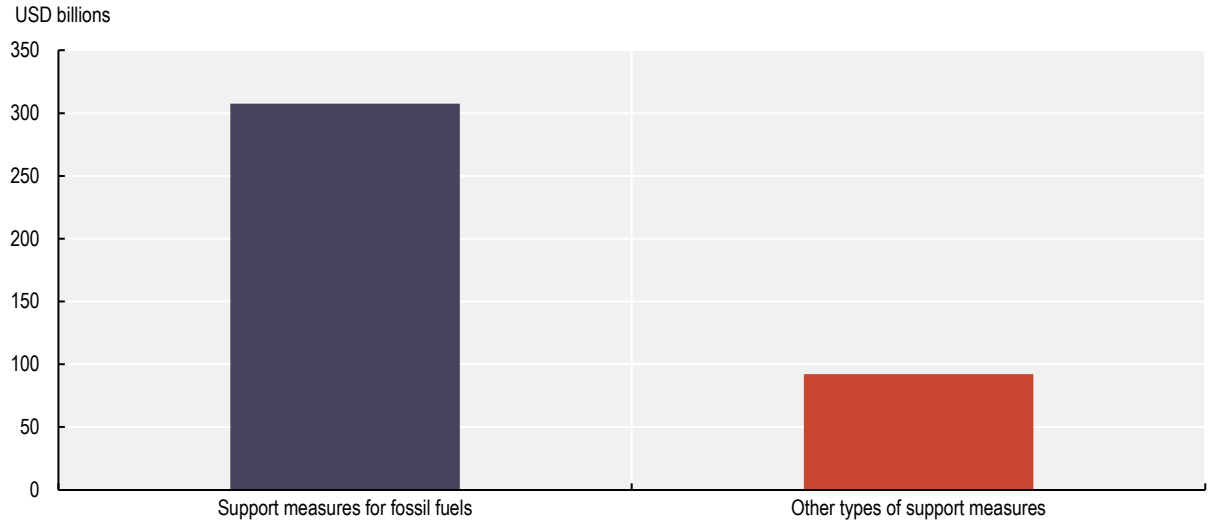
[1] Support measures reported in both databases amount to USD 73.2 billion. The joint OECD-IEA estimate (net of overlapping support measures) is therefore USD 1 481.3 billion in 2022.

Much of the emergency support introduced in 2022 supported production and consumption of fossil fuels

Governments across the world introduced substantial initiatives to mitigate the economic repercussions stemming from unusually high energy costs in 2022, offering emergency measures to help shield households and firms from higher energy prices (OECD, 2022[1]). For instance, data from the OECD Inventory show that 162 such new support measures were introduced in 2022 across OECD and partner countries. However, most of these new measures supported the production and consumption of fossil fuels (Figure 2).

Figure 2. Support measures for fossil fuels represented the vast majority of the fiscal cost of new energy support measures implemented in 2022

Fiscal cost of support measures for fossil fuels vs other types of support measures (in USD billion)



1) Estimated aggregate fiscal cost of new energy support measures implemented in 2022 as a response to high energy prices in 41 OECD and non-OECD countries covered by the OECD Energy Support Measures Tracker. This estimate does not include existing support measures for fossil fuels that were extended to respond to high energy prices. For more details on the methodology to estimate fiscal costs of energy support measures, see Hemmerlé et al. (2023[2]).
2) Countries included in the OECD Energy Support Measures Tracker are: Australia, Austria, Belgium, Bulgaria, Canada, Chile, Colombia, Costa Rica, Czech Republic, Germany, Denmark, Spain, Estonia, Finland, France, Greece, Croatia, India, Ireland, Israel, Italy, Japan, Korea, Lithuania, Luxembourg, Latvia, Mexico, Netherlands, Norway, New Zealand, Poland, Portugal, Romania, Slovak Republic, Slovenia, Sweden, Türkiye, United Kingdom, United States, and South Africa.
3) Support measures for fossil fuels encourage the production or the consumption of fossil fuels relative to alternatives. Other types of support measures are decoupled from the production or the consumption of fossil fuels – e.g. means-tested cash transfers.
Source: OECD Energy Support Measures Tracker and Hemmerlé, et al (2023[2]).

This included revival of support for coal

While still small in absolute terms, the fiscal cost of global support for coal has increased by 60% since 2013 to reach USD 36.1 billion in 2022 (Figure 1).

This trend is driven by new support measures for coal production and consumption to respond to rising oil and gas prices. These included heating subsidies for households that consume coal and price caps on coal as an input for electricity generation, notably in coal-producing countries. Furthermore, various countries continued to support coal production through existing measures.

While not captured by the Inventory and the IEA estimates, governments have also introduced other types of measures supporting the coal industry.[2] For instance, the energy crisis prompted several countries within and outside of the OECD to extend the lifespan or temporarily restart coal-fired power plants, or approve new coal-fired power plants, to maintain energy security and stability.

In relative terms, gas and electricity were the fuels for which the fiscal cost of support increased the most (Figure 1). Countries used both fuel tax reductions and price control measures to cushion energy end-users from the effects of soaring energy prices. Many governments introduced or extended tax reductions on fuels through, for instance, increased reductions of VAT or excise taxes normally paid by gas and electricity end-users. Others introduced price control measures, imposing a cap on gas and electricity sale prices. Additionally, governments also implemented direct monetary transfers to energy suppliers to offset associated economic losses.[3]

[2] The *OECD Inventory of support measures for fossil fuels* currently reports direct budgetary transfers and tax expenditures only. The IEA estimates only cover fossil fuels that are sold below market prices.

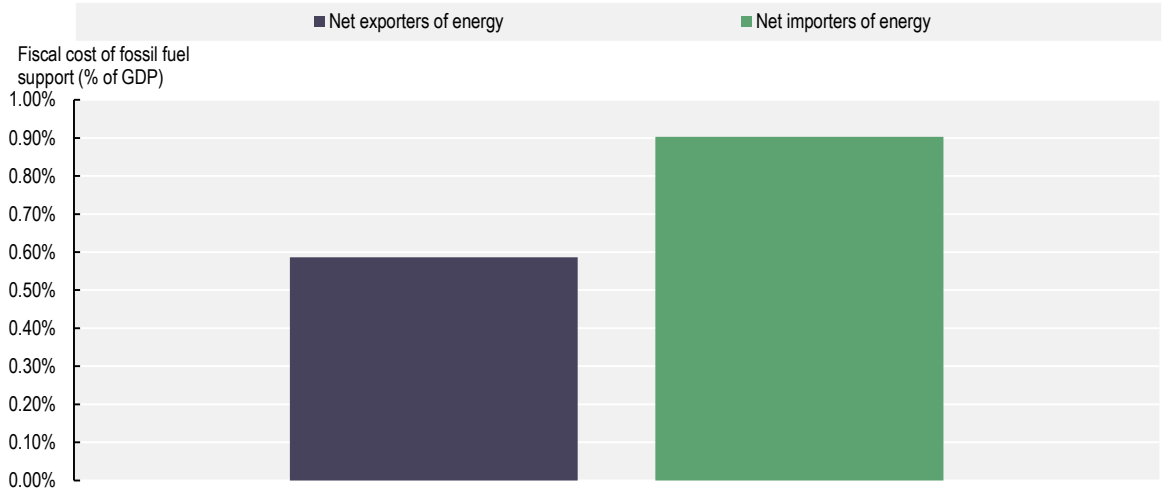
[3] New measures recorded in the Inventory provide relevant examples of tax reductions and price control measures. They include the introduction of capped prices of electricity and gas for both households and firms, tax credits to energy-intensive firms to (partially) compensate for costs incurred due to the exceptional increase in gas and electricity prices, reduced VAT rates on gas and electricity for all end-users (households and firms alike), regulated price of wholesale energy suppliers to limit retail price increases of certain fuels.

New support measures were more costly for net energy importers

Net importers of energy were particularly vulnerable to the impacts of high energy prices and implemented relatively more costly support measures compared to net exporters of energy (Figure 3). Data from the Inventory show that countries that are highly dependent on imported oil implemented large-scale support mechanisms, while fossil fuel producer countries experienced relatively lower impacts.

Figure 3. Fiscal cost of support measures for fossil fuels was larger for net importers of energy

Fiscal cost of support measures for fossil fuels as a percentage of GDP for net exporters and importers of energy



Fiscal cost of support measures for fossil fuels (from the OECD Inventory) as share of GDP on the vertical axis. Fossil fuel exporters and importers are defined by their net imports of energy calculated based on the IEA World Energy Balances.
Source: OECD Inventory of support measures for fossil fuels, IEA World Energy Balances database, and OECD calculations.

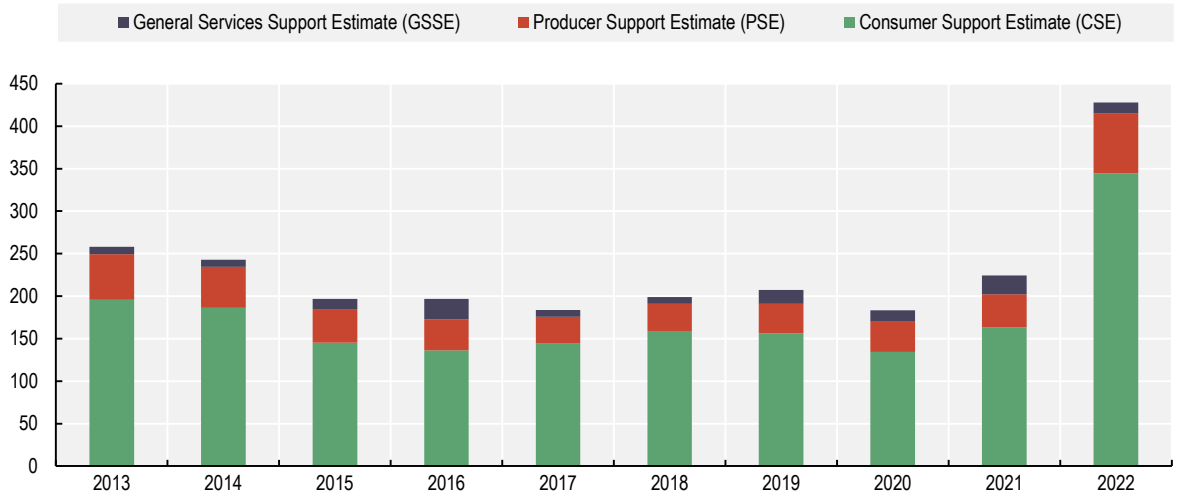
Much of the increase in the fiscal cost of support measures went to supporting consumption of fossil fuels by households and firms

Data from the OECD Inventory show that, in 2022, support to consumers (both households and firms) accounts for 81% of the total fiscal cost of support measures for fossil fuels, followed by support to producers at 16%, and support to general services (that is support not targeted specifically to either producers or consumers) at 3%, (Figure 4).

A further breakdown by sector reveals that the fiscal cost of support to fossil fuels for residential use experienced the largest increase (154%), as significant support was directed at shielding end-users from high prices of gas and electricity (Figure 4). The fiscal cost of support for residential use increased to USD 125.7 billion in 2022, from USD 49.5 billion in 2021. The residential sector now represents the largest share (29%) of the overall fiscal cost of support measures in OECD and partner countries equating transportation (29%) (Figure 4).

Figure 4. Much of the increase in the fiscal cost of support measures supported consumption of fossil fuels by households and firms

Fiscal cost of support measures for fossil fuels in OECD and partner countries (48 countries), by type of support (in USD billion)



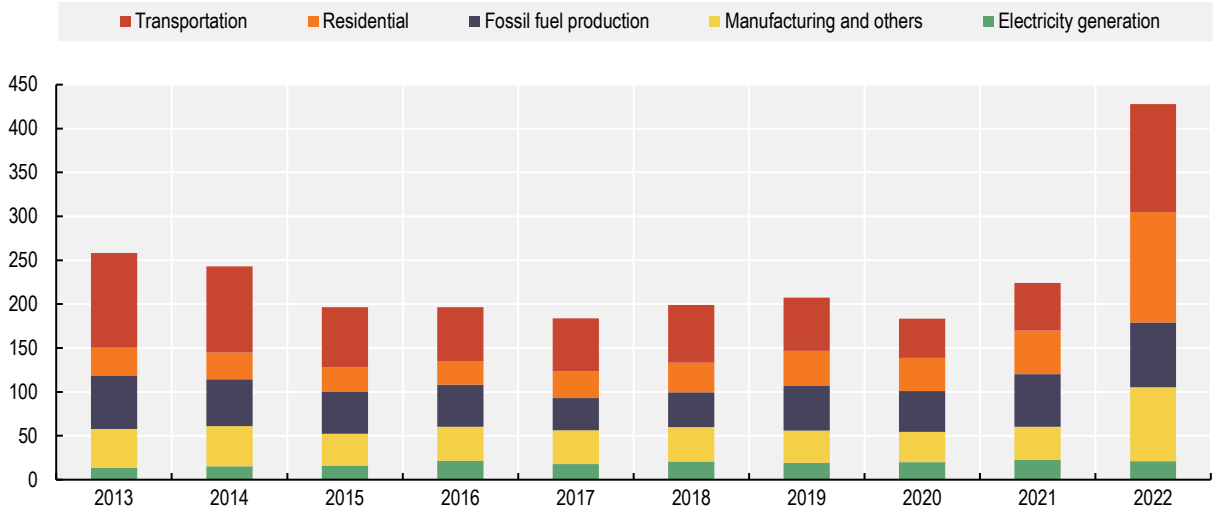
1) Producer Support Estimate (PSE) includes measures that support the activities of exploration and extraction, bulk transportation and storage, and refining and processing of fossil fuels. Consumer Support Estimate (CSE) includes measures that support the use of fossil fuels in power and heat generation, industrial processes and activities outside of the energy sector, and all other final uses of fossil fuels, whether in the transport sector, the residential sector, or primary industries outside of the energy sector (e.g. agriculture and forestry). General Services Support Estimate (GSSE) includes measures benefitting producers or consumers collectively, as are measures that do not increase current production or consumption of fossil fuels but may do so in the future. Examples of GSSE measures would include public support for industry-specific infrastructure development such as public support for the construction of coal or natural-gas terminals.
2) Countries included in the calculations are: Argentina, Armenia, Australia, Austria, Azerbaijan, Belgium, Brazil, Canada, Chile, China, Colombia, Costa Rica, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, Moldova, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Türkiye, United Kingdom, United States.
3) Fiscal cost of support measures for fossil fuels included in the Inventory are based on information reported by countries through official documentation (e.g. budget reports). Support measures for which such information is not available are excluded from the aggregate amount reported in this report. In addition, support measures in certain countries may not have been exhaustively identified.
4) The Inventory reports tax expenditures as estimates of revenue that is foregone due to a particular feature of the tax system that reduces or postpones tax payments (relative to a jurisdiction's benchmark tax system) to the benefit of fossil fuels' producers or users. Hence, (i) tax expenditures estimates can increase over time either because of greater concessions (relative to the benchmark tax system) or because of an increase in the benchmark itself; (ii) cross-country comparisons of tax expenditures can be misleading due to country-specific benchmark tax systems.
5) Individual support measures for fossil fuels are included in the Inventory without reference to their economic or environmental effects. No judgment is therefore made as to whether such measures are inefficient or ought to be reformed.
6) Data are expressed in nominal US dollars. Data for 2022 are on a preliminary basis.
Source: OECD Inventory of support measures for fossil fuels.

Driven by the surge in oil prices, the fiscal cost of fossil fuel support for transportation increased by 127% (to USD 123.3 billion in 2022, from USD 54.4 billion in 2021). Data from the OECD Inventory show that countries have relied on a range of instruments to protect fuel users in road transportation. Some countries provided larger tax concessions on gasoline and diesel, resulting in an increase in tax expenditures. Others mandated discounted fuel prices and offered compensation to fuel suppliers. The fiscal cost of support to fossil-fuel production (i.e. extraction and refinement of fossil fuels) also rose – with an increase of 23%, USD 60 billion in 2021 to USD 73.6 billion in 2022.

The fiscal cost of fossil fuel support to manufacturing and other industries also experienced an increase of 122% to USD 84.2 billion in 2022, up from USD 37.9 billion in 2021. This increase reflects support measures rolled out to shield firms from the effects of high energy prices in 2022. Support for fuel consumption by manufacturing and other industries now represents 20% of the overall fiscal cost of support measures in OECD and partner countries (Figure 5).

Figure 5. Support for fossil fuel consumption by residential use and transportation now represent the largest shares of the overall fiscal cost of support measures

Fiscal cost of support measures for fossil fuels in OECD and partner countries (48 countries), by sector (in USD billion)



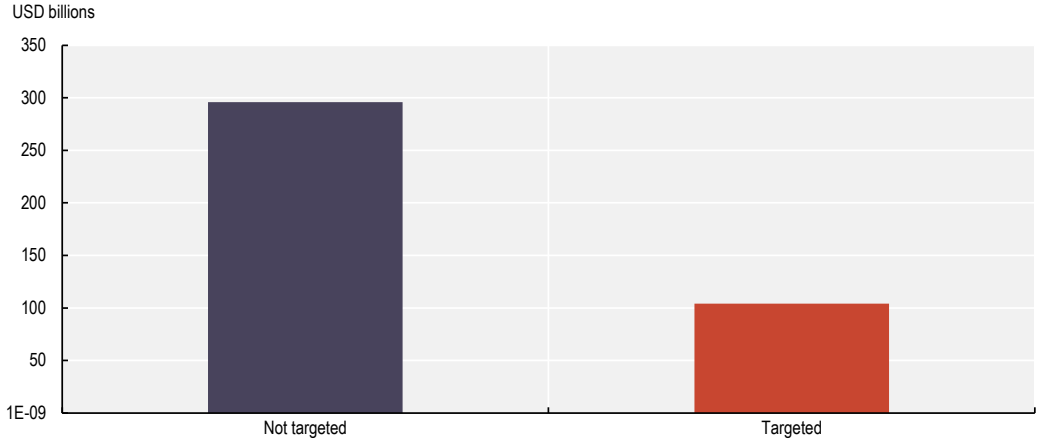
1) Production sector includes measures that support the production, exploration, trade, storage, and transportation of fossil fuels. The transportation sector includes measures that support the final uses of fossil fuels in the transport sector, including domestic aviation, domestic navigation, road, and rail. Residential sector includes measures that support the final use of fossil fuels (including electricity) in the residential sector (i.e. consumption by households). The electricity generation sector includes measures that support fossil fuel-based electricity and heat generation (both main and auto producers). Manufacturing and others include measures that support the use of fossil fuels in the energy transformation sector other than electricity and heat generation, industrial and manufacturing sector, commercial and public services, agriculture, forestry, and fisheries.
2) Countries included in the calculations are: Argentina, Armenia, Australia, Austria, Azerbaijan, Belgium, Brazil, Canada, Chile, China, Colombia, Costa Rica, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, Moldova, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Türkiye, United Kingdom, United States.
3) Fiscal cost of support measures for fossil fuels included in the Inventory are based on information reported by countries through official documentation (e.g. budget reports). Support measures for which such information is not available are excluded from the aggregate amount reported in this report. In addition, support measures in certain countries may not have been exhaustively identified.
4) The Inventory reports tax expenditures as estimates of revenue that is foregone due to a particular feature of the tax system that reduces or postpones tax payments (relative to a jurisdiction's benchmark tax system) to the benefit of fossil fuels' producers or users. Hence, (i) tax expenditures estimates can increase over time either because of greater concessions (relative to the benchmark tax system) or because of an increase in the benchmark itself; (ii) cross-country comparisons of tax expenditures can be misleading due to country-specific benchmark tax systems.
5) Individual support measures for fossil fuels are included in the Inventory without reference to their economic or environmental effects. No judgment is therefore made as to whether such measures are inefficient or ought to be reformed.
6) Data are expressed in nominal US dollars. Data for 2022 are on a preliminary basis.
Source: OECD Inventory of support measures for fossil fuels.

But new measures to support consumption were generally not well-targeted, raising both equity and efficiency issues

OECD analysis of energy support measures provided in 2022 finds that most support measures lacked systematic targeting towards those in greatest need (Figure 6).

Figure 6. Most new support measures were not targeted to those most in need

Fiscal cost of new energy support measures implemented in 2022, targeted vs non-targeted (in USD billion)



1) Estimated aggregate fiscal cost of new energy support measures implemented in 2022 as a response to high energy prices in 41 OECD and non-OECD countries covered by the OECD Energy Support Measures Tracker. This estimate does not include existing support measures for fossil fuels that were extended to respond to high energy prices. For more details on the methodology to estimate fiscal costs of energy support measures, see Hemmerlé et al (2023[2]).
2) Targeted support measures are defined as measures benefitting a specific category of households, firms, or energy users.
3) Countries included in the OECD Energy Support Measures Tracker are: Australia, Austria, Belgium, Bulgaria, Canada, Chile, Colombia, Costa Rica, Czech Republic, Germany, Denmark, Spain, Estonia, Finland, France, Greece, Croatia, India, Ireland, Israel, Italy, Japan, Korea, Lithuania, Luxembourg, Latvia, Mexico, Netherlands, Norway, New Zealand, Poland, Portugal, Romania, Slovak Republic, Slovenia, Sweden, Türkiye, United Kingdom, United States, and South Africa.
Source: OECD Energy Support Measures Tracker and Hemmerlé et al. (2023[2]).

For support to households, poorly targeted measures raise fiscal, distributional, and environmental concerns. Lack of targeting raises fiscal costs, as support is provided to a large number of recipients. Such measures also tend to disproportionately benefit better-off households, who tend to consume more energy (for instance, via larger vehicles, bigger houses perhaps with air conditioning, or more electrical appliances). Finally, more generally, untargeted measures distort price signals, thereby contributing to the continued consumption of fossil fuels.

That said, governments may encounter challenges in targeting measures as factors affecting household vulnerability to high energy prices are diverse and difficult to measure. Factors affecting vulnerability include criteria such as income, inability to renovate energy-inefficient dwellings, limited access to cheaper forms of energy, or higher-than-average energy needs due to household size, age structure, geographical location or illness (Hemmerlé et al., 2023[2]). That said, digitalisation of government services can help with the identification of households most vulnerable to higher energy prices.

Similarly, poorly targeted support measures provided to firms raise competition and market efficiency concerns. Although sometimes challenging to implement, governments should strive to target companies facing liquidity and solvency issues resulting from energy price shocks, but which would otherwise be solvent (OECD, 2022[1]). This approach would help reduce the risk of maintaining inefficient firms, which may hinder competition, stifle domestic productivity growth, and distort international markets (OECD, 2020[3]). In line with well-established OECD guidelines, government support to firms should also be time-limited, transparent, proportionate, and non-discriminatory (i.e. applying objective and transparent criteria for determining firms' eligibility) (OECD, 2020[3]; OECD, 2021[4]).

Conclusion: Fossil fuel support should be better targeted and temporary

In a context of soaring energy prices in 2022, many governments acted quickly to alleviate adverse effects on households and firms resulting in almost a doubling of the global fiscal cost of fossil fuel support, which is now at its highest level ever recorded. The resulting threat to our collective net zero goals highlights the challenges of staying on track with net zero commitments in the face of geopolitical and economic disruptions. That said, there are things that governments can do. Governments can start by moving away from large-scale support for both households and firms which tends (often disproportionately) to benefit users who do not need it and redesign policies to more targeted measures. Such an approach would contain fiscal costs and re-establish the price signal of fossil fuels for most end-users, thereby creating incentives for energy savings and switching to non-fossil energy sources (OECD, 2022[1]).

Achieving net zero emissions in the energy sector would contribute significantly to limiting global warming to 1.5°C. This goal, however, requires a much faster deployment of non-fossil technologies (IEA, 2023[5]). Phasing out of support to fossil fuels will help to free up much needed resources for the transition towards net zero emissions and accelerate innovation to improve energy efficiency.

Recent events have highlighted that fossil fuels have become a less reliable source of energy, prompting concerns over energy security (OECD, 2022[1]). In this new context, synergies between climate and energy security objectives can be exploited. Using fiscal resources to invest in non-fossil technologies will help reduce dependence on fossil fuels, thereby reducing households' vulnerabilities to price shocks.

Prioritising the development of capabilities that enable energy users to transition to clean energy sources would simultaneously contribute to meeting climate, energy, and social policies' objectives (OECD, 2022[1]). Interventions that encourage the consumption and production of fossil fuels, instead, hinder the achievement of this triple policy goal. Given the high costs of inaction, countries are encouraged to reaffirm and act on their SDG commitment to phase out and reform inefficient support to fossil fuels to better align fiscal policy with climate goals.

About the OECD Inventory of Support Measures for Fossil Fuels

The *OECD Inventory of Support Measures for Fossil Fuels* identifies, documents, and estimates government support measures that encourage fossil-fuel production or consumption. The latest edition of the Inventory includes 1 654 support measures in 51 OECD, G20, and EU Eastern Partnership economies.

The OECD Inventory is based on a bottom-up approach that collects detailed information from official government sources (e.g. budget reports) for individual support measure for fossil fuels. It currently covers direct budgetary transfers and tax expenditures arising from tax provisions that provide a benefit or preference for fossil-fuel production or consumption relative to alternatives.

While data in the OECD Inventory aim for comprehensiveness, they are not exhaustive. In particular, the OECD Inventory contains more information for countries that have demonstrated greater transparency in their budget documentation. This does not necessarily imply that these countries provide higher levels of support than others, but may reflect their greater transparency regarding the support they provide.

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