



REFORMING GOVERNMENT SUPPORT FOR FOSSIL FUELS - THE OECD INVENTORY

OECD

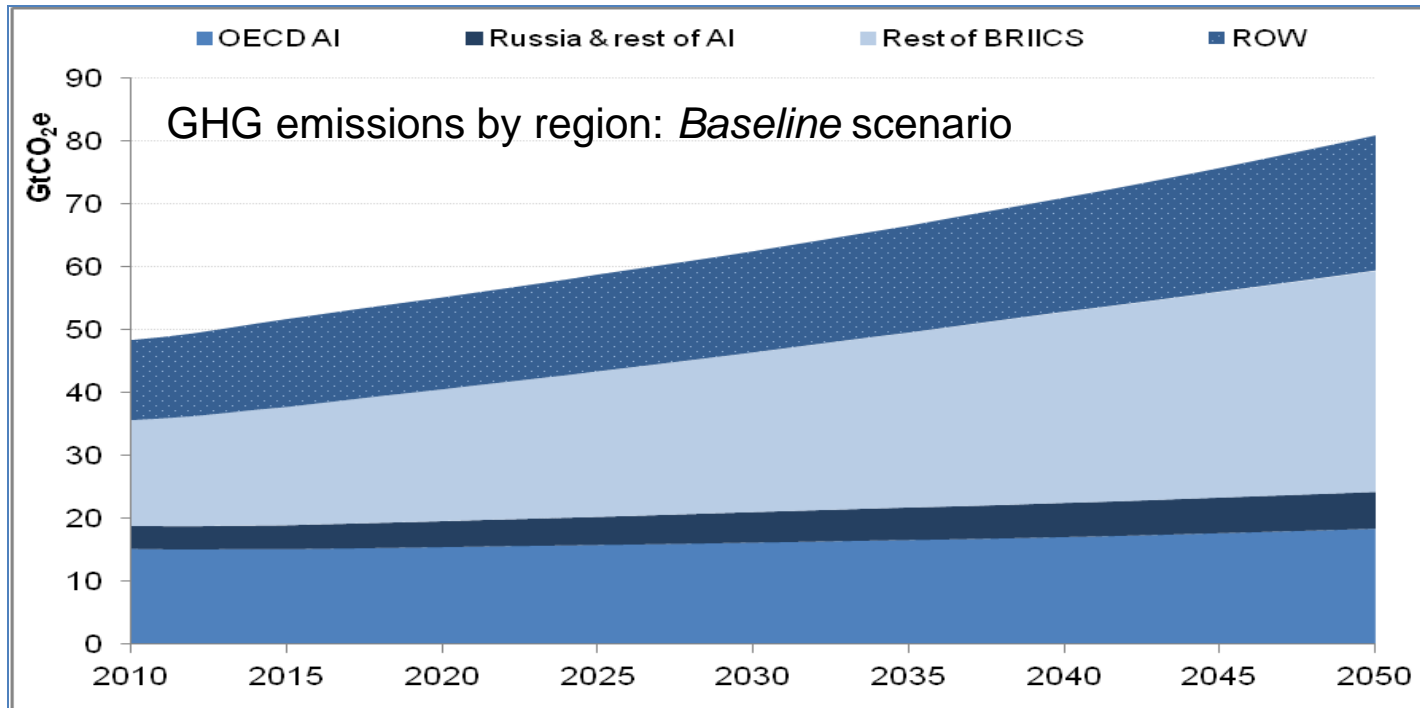
Meeting of the National Focal Points for Policy
Coherence for Development (PCD)

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Why a reform of FFS? (1)



Source: OECD Environmental Outlook Baseline; output from ENV-Linkages.

- Addressing environmental challenges is not only about introducing **new policies**, but also about **changing existing ones**.



Why a reform of FFS? (2)

- The gains from reform are threefold:
 - Global (GHG emissions, etc.)
 - Macroeconomic (fiscal and current balances, etc.)
 - Microeconomic (distortions, smuggling, etc.)
- OECD analysis (2012) concludes that a reform could reduce global GHG emissions by 6% by 2050 compared with business as usual.
 - Impact on real income would average +0.3% by 2050 (+1.1% for the BRIICS).
 - The direction of trade flows would also be affected (EIIs).



Gaps in data

- The data-coverage problem.
 - Advantages and limitations of price-gap estimates.
- Consumption subsidies:
 - The first joint report to the G-20 by the IEA, OPEC, the OECD and the World Bank noted that some measures supporting the consumption of fossil fuels (such as tax relief) could escape measurement using the price-gap approach.
- Production subsidies:
 - “... no systematic effort has been undertaken within the last decade to estimate subsidies to fossil-fuel production over a wide range of countries.”



The OECD Inventory

- The OECD's *Inventory of estimated budgetary support and tax expenditures for fossil fuels* aims to help fill this gap. It identifies, documents and estimates budgetary transfers and tax expenditures relating to fossil fuels for all 34 OECD countries.
 - Covers both production and consumption.
 - Also includes sub-national jurisdictions in the case of federations (e.g., Australia, Canada, United States).
 - Some non-OECD countries also signalled interest.



Download the Inventory chapter for each country (All files are in PDF format.)

 Australia	 Hungary	 Korea	 Poland
 Belgium	 Iceland	 Luxembourg	 Spain
 Canada	 Ireland	 Mexico	 Sweden
 Chile	 Israel	 Netherlands	 Turkey
 France	 Italy	 New Zealand	 United Kingdom
 Germany	 Japan	 Norway	 United States



The Inventory method

- The main goal of the OECD Inventory is transparency.
 - Reforming fossil-fuel subsidies requires a prior review of what measures are in place, their incidence, their cost, etc.
 - Once measures have been identified, their efficiency can next be assessed.
- Types of measure covered:
 - Direct budgetary transfers,
 - Tax expenditures,
 - Royalty concessions, etc.
- No judgment on the purpose of the measures or their effects.
- Support can be **absolute** (cash grants) or **relative** (tax preferences).



Support measures come in different shapes and colours





Inventory overview (1)

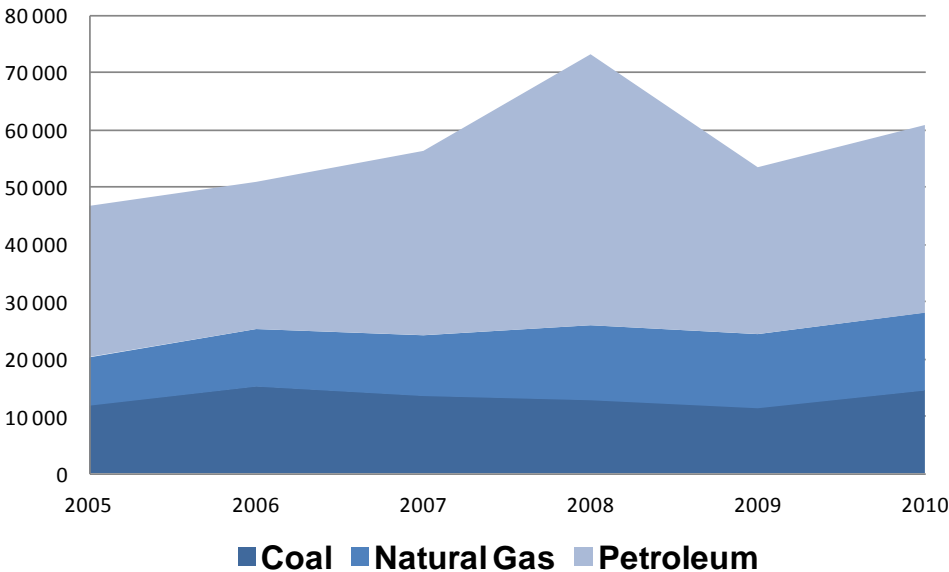
- The first version of the Inventory included about **300 support measures** in 24 countries.
- The overall value of these support measures was in the range of **USD 45-75 billion per annum over the 2005-10 period.**
- However, **caution** is necessary in interpreting this overall figure.



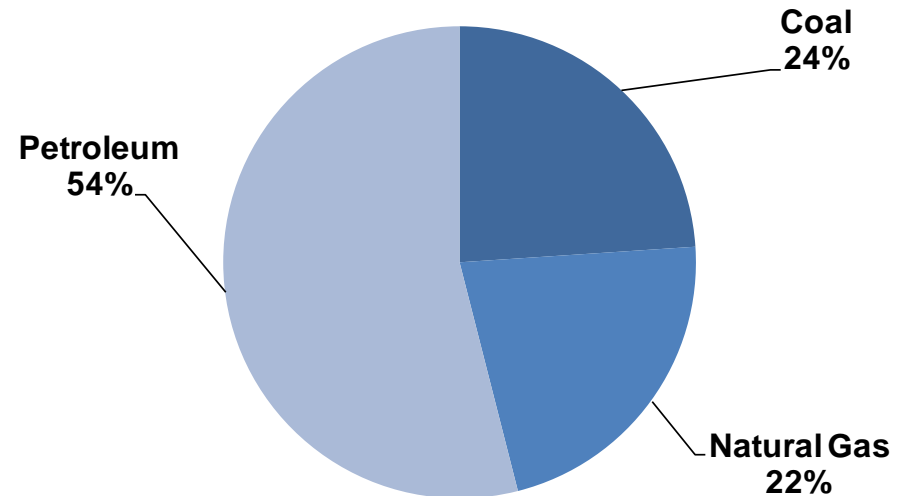
Inventory overview (2)

Support to fossil fuels in OECD countries by year and type of fuel

Millions of current USD



Year 2010



Note: The above chart is based on an arithmetic sum of the individual support measures identified for the 24 OECD countries included in the first version of the Inventory. It includes the value of tax relief measured under each jurisdiction's benchmark tax treatment. The estimates do not take into account interactions that may occur if multiple measures were to be removed at the same time.

Source: OECD.

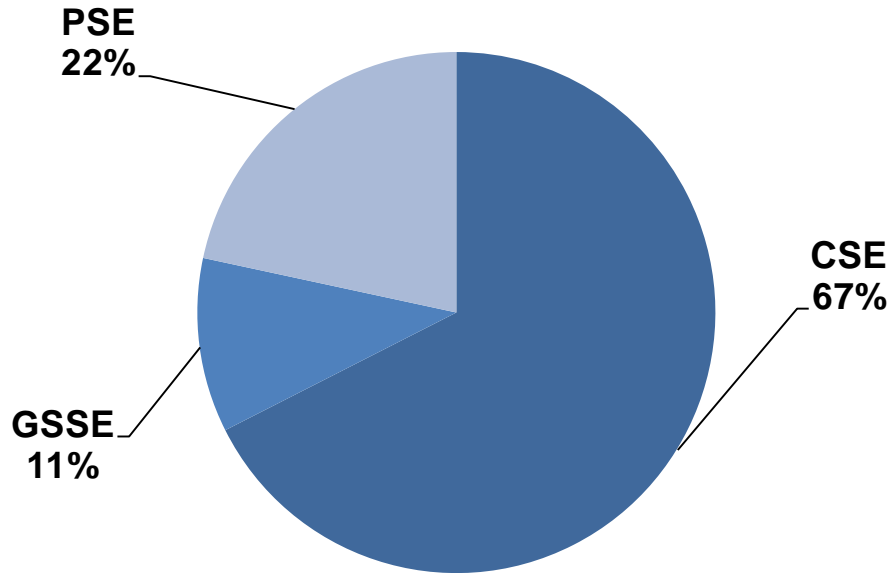


Inventory overview (3)

Shares of fossil-fuel support by indicator

Year 2010

PSE = Producer Support Estimate
CSE = Consumer Support Estimate
GSSE = General Services Support Estimate



Note: The above chart is based on an arithmetic sum of the individual support measures identified for the 24 OECD countries included in the first version of the Inventory. It includes the value of tax relief measured under each jurisdiction's benchmark tax treatment. The estimates do not take into account interactions that may occur if multiple measures were to be removed at the same time.

Source: OECD. OECD Trade and Agriculture Directorate



Caveats

- Exercise in transparency:
 - No analysis as yet of the impacts of support measures or judgment on whether they are economically efficient or environmentally harmful.
- Countries vary in terms of their transparency in reporting support.
- Benchmarks are critical, especially for establishing tax expenditures; we used benchmarks of individual countries.
- Cannot compare totals across countries in a meaningful way.
- Caution needed in interpreting and aggregating data.



The case of the European Union (1)

- On the one hand, EU countries account for more than half of all OECD-wide support to coal production or use.
 - Support to coal mining is dominated by Germany, followed by Spain and Poland.
 - State aid is, however, planned to be gradually phased out in the coming decade (see “Council Decision of 10 December 2010 on State aid to facilitate the closure of uncompetitive coal mines”).
- On the other hand, the EU is marginal in the case of oil and gas.
 - A few exceptions: the UK and Estonia.
 - The trend towards unconventional hydrocarbons may change the picture.
- In terms of consumption, the EU is both a major user of fossil fuels and a high energy-tax region.
 - The importance of excise-tax exemptions and reductions.
 - The role of EU regulations.



The case of the European Union (2)



Source: OECD.



Key messages

- The OECD inventory is not a list of inefficient subsidies that encourage wasteful consumption.
- The inventory is first and foremost a **policy tool** and an exercise in **transparency**.
- It will also facilitate future discussions of energy policies in an **international context**.



For more information

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