



**Measuring and disciplining
subsidies to fossil fuels:
from Kosmo to the G-20**

Ronald Steenblik
OECD Trade and Agriculture Directorate

Berlin, 12 November 2009

What is a fossil fuel?



peat



lignite



coal



petroleum



natural gas

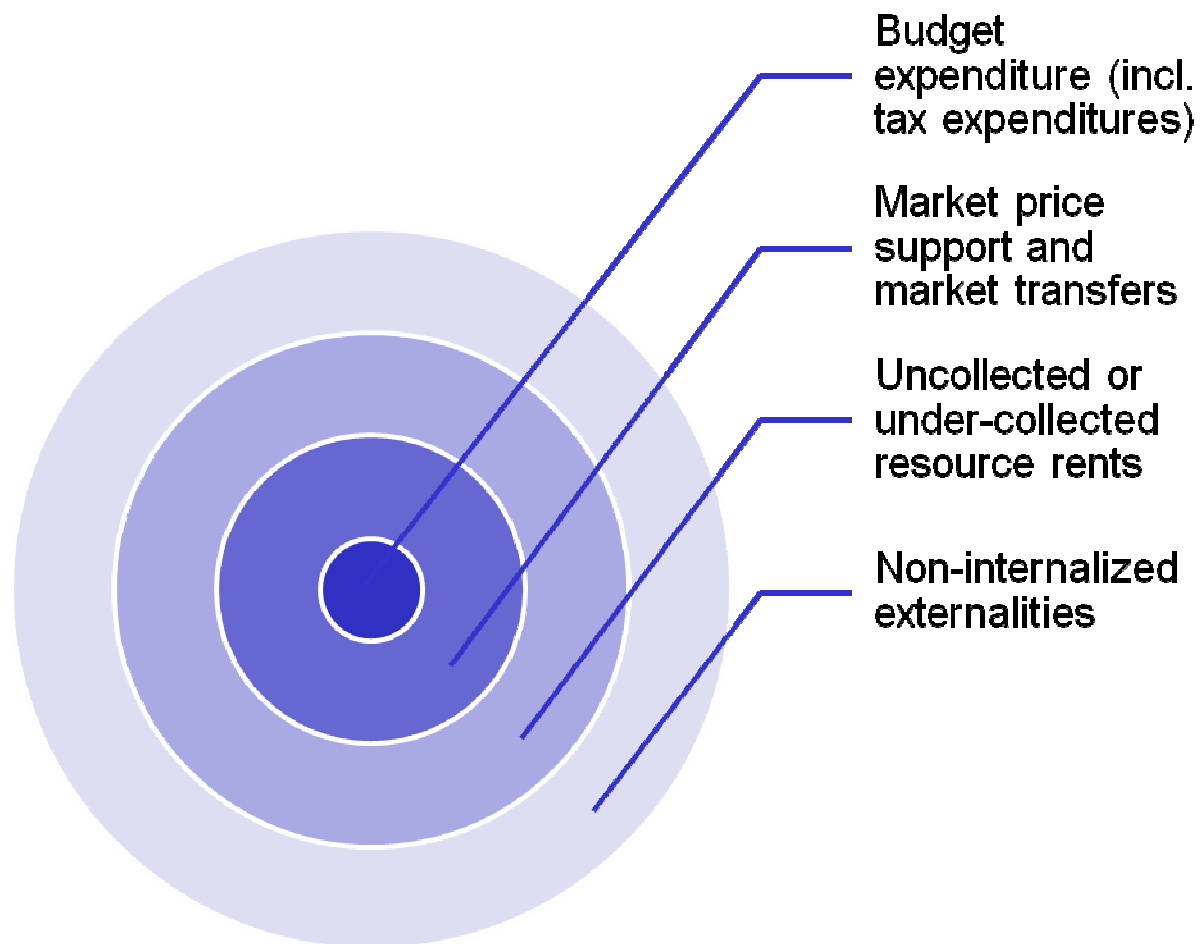


uranium

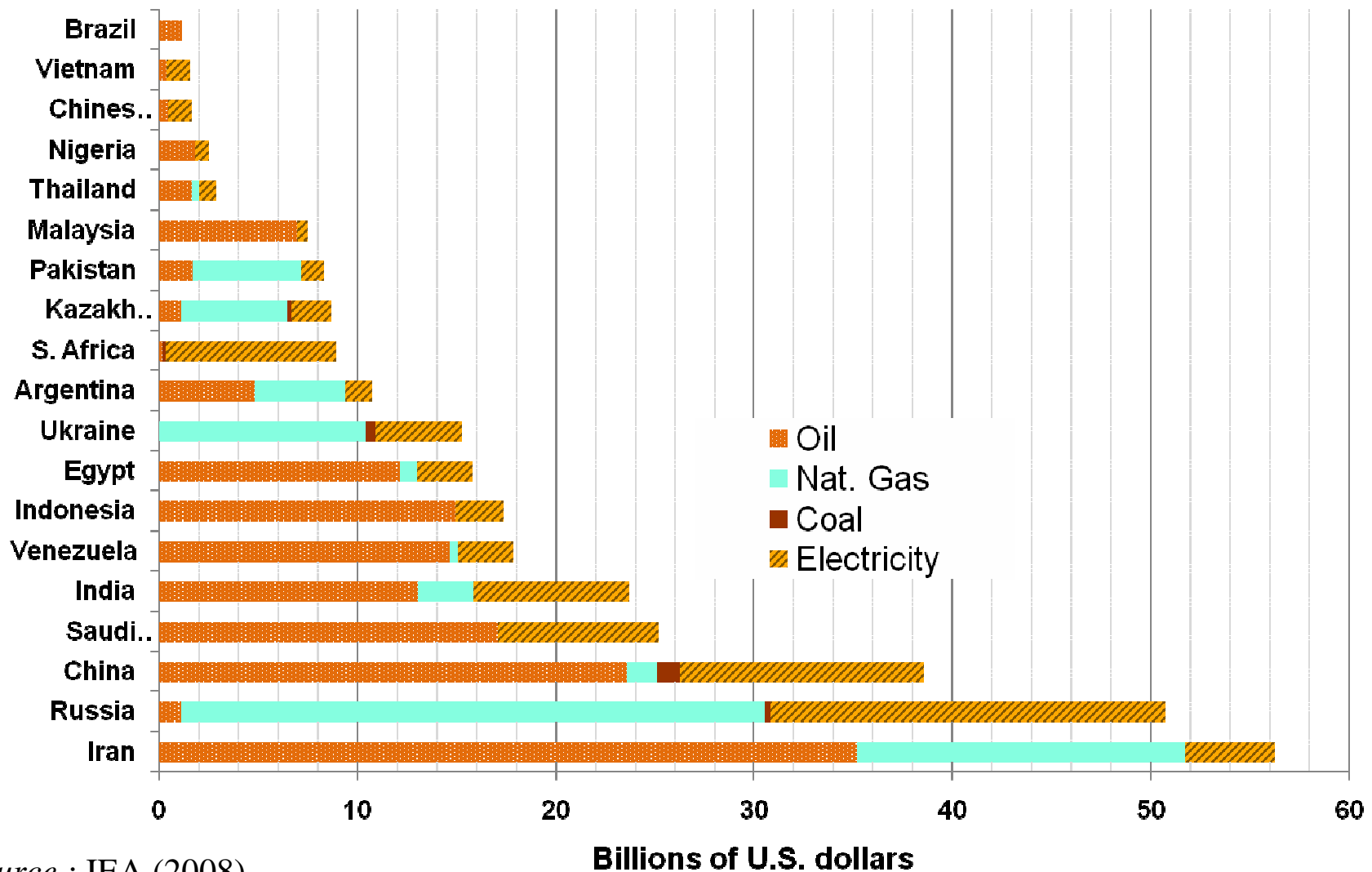
Why subsidies to energy are of international interest

- **Subsidies affect prices, and thus production and consumption of energy goods — not just like goods but others competing for heat, transport and electricity markets.**
- **Subsidized consumption isolating a number of markets from market signals, thus contributing to global price volatility.**
- **Subsidized inputs reduce production costs and are therefore of trade interest.**
- **Production and consumption of fossil fuels generates greenhouse gases, which makes them relevant to climate-change discussions.**

How are subsidies defined?



Market transfers to fossil fuels and electricity, 2007



Source : IEA (2008).

History of major efforts to measure energy subsidies

Institution	Country coverage	Types of subsidies
WRI (Kosmo, 1987)	Major countries	Consumer subsidies
IEA, 1988-2002	5 IEA countries	Producer subsidies (coal PSE)
IEA (annually since 1990)	IEA countries	Govt expenditure on R&D
World Bank (1992)	World	Consumer subsidies
OECD (1997)	Various OECD	Case studies (producer & consumer)
IEA (1999)	Major non-OECD	Mainly consumer subsidies
OECD (2001)	Various countries	Mainly consumer subsidies
GTZ (annually since 2003)	World	Price gaps for fuels
IEA & UNEP (2003)	Selected countries	Case studies (producer & consumer)
IEA (2006, 2008, 2010)	Major non-OECD	Consumer subsidies
IMF (2008)	Non-OECD	Price gaps for fuels
Global Subsidies Initiative (forthcoming, 2010)	Selected OECD and non-OECD countries	Concentration on producer subsidies

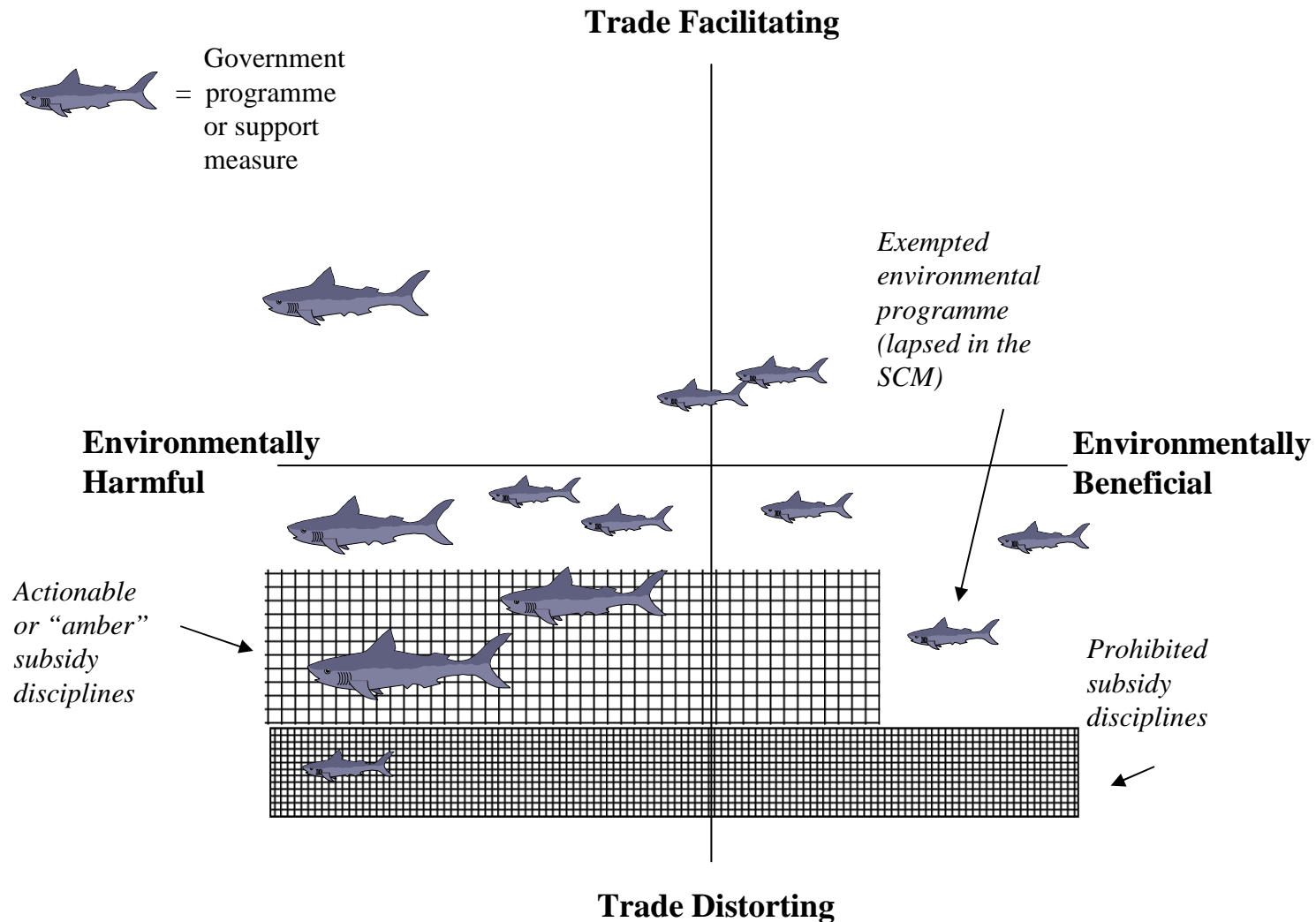
Guestimates of order of magnitudes

Type of subsidy	OECD Countries		Non-OECD Countries	
	Incidence	\$10 ⁹ /yr	Incidence	\$10 ⁹ /yr
<i>Production</i>				
MPS	Uncommon easy	x0	Common moderate	X0
Investment	Common moderate	x0	Unknown difficult	x0
R&D	Common easy	x0	Common moderate	x0
<i>Consumption</i>				
Market	Uncommon easy	x0	Common easy	~400
Consuming capital	Common difficult	x0	Common? difficult	x0

Gap analysis: energy subsidies compared with other subsidies

	Subsidies (reform) in general	Border protection in general	Agriculture	Energy	Fisheries	Services
International readiness for change	Light Green	Light Green	Dark Green	Dark Green	Dark Green	Light Green
Readiness for unilateral change at domestic level	Light Green	Light Green	Light Green	Light Green	Dark Green	White
Public pressure relative to vested interests	White	White	Light Green	Light Green	Light Green	Light Green
Quality of debate in public arena	White	White	Light Green	Light Green	Light Green	Light Green
Case well made in lay terms	Dark Green	Light Green	Dark Green	Light Green	Light Green	Light Green
Quality of debate among those engaged	Light Green	Dark Green	Dark Green	Light Green	Dark Green	Light Green
Analysis of effects of support	Light Green	Light Green	Dark Green	Light Green	Light Green	White
Organisation of data	*	Light Green	Dark Green	Light Green	Light Green	White
Availability of raw data	Light Green	Dark Green	Dark Green	Light Green	Light Green	Light Green

Current international subsidy disciplines catch (or discourage) some subsidies, but not all



Excerpt from G-20 Leaders' Communique

“... The Organization for Economic Cooperation and Development (OECD) and the International Energy Agency have found that eliminating fossil fuel subsidies by 2020 would reduce global greenhouse gas emissions in 2050 by ten percent. ... Building on these efforts and recognizing the challenges of populations suffering from energy poverty, we commit to:

“Rationalize and phase out over the medium term inefficient **fossil fuel subsidies** that encourage wasteful consumption. As we do that, we recognize the importance of providing those in need with essential energy services, including through the use of targeted cash transfers and other appropriate mechanisms. ... “

Next steps

- Get agreement on estimation methods
- Estimate subsidies across all (G-20) countries
- Extend modelling of effects
- Look for lessons from previous reforms
- Establish mechanism for monitoring and review
- At political level, form a “Friends of FFS Reform”?



OECD Trade and Agriculture

www.oecd.org/trade

Click on : “environment & trade”



Contact

Ronald.Steenblik@oecd.org