

A Guidebook to Reviews of Fossil Fuel Subsidies:

From self-reports to peer learning

Executive Summary



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About GSI

The IISD Global Subsidies Initiative (GSI) supports international processes, national governments and civil society organizations to align subsidies with sustainable development. GSI does this by promoting transparency on the nature and size of subsidies; evaluating the economic, social and environmental impacts of subsidies; and, where necessary, advising on how inefficient and wasteful subsidies can best be reformed. GSI is headquartered in Geneva, Switzerland, and works with partners located around the world. Its principal funders have included the governments of Denmark, Finland, New Zealand, Norway, Sweden, Switzerland and the United Kingdom, as well as the KR Foundation.

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With a global value of at least USD 425 billion a year, fossil fuel subsidies (FFSs) are often fiscally burdensome, economically inefficient, socially regressive and environmentally harmful. Over 2014–2016, over 50 countries—from Saudi Arabia to Canada, India to Ukraine—increased, or removed government controls, on prices of fossil fuels, directly or partially removing subsidies. These reforms have created fiscal space for repayment of debt and funding development.

Why Self- and Peer Reviews of FFS?

Self- and peer reviews of FFSs are a tool for increasing transparency and accountability for the policies that potentially act against sustainable development. As such, FFS reviews serve both domestic and international purposes and audiences. Domestically, policy-makers who are interested in FFS phase-out can benefit from self- and peer reviews of FFSs as a way to set a transparent baseline for reform, prepare for it and make progress.

Internationally, FFS reviews advance peer learning and hold potential for cross-pollination. International experience contributes to building the case for FFS reform in individual countries by stressing that even though reform circumstances are always national, countries are not alone in undertaking this effort.



FFS Review Champions

The leaders of the G7, the G20, the European Union (EU) (a member of G20) and the Asia-Pacific Economic Cooperation (APEC) committed to “phase out and rationalise over the medium term inefficient FFS” “that encourage wasteful consumption” “while providing targeted support for the poorest” (G20, 2009; G7, 2016; APEC, 2009). To facilitate progress against their commitment, both G20 and APEC leaders decided to use voluntary self-reviews and, later, peer reviews of FFSs.

Non-G20 groupings such as the Friends of Fossil Fuel Subsidy Reform (“Friends”) have also promoted FFS reform and FFS reviews for fiscal stability reasons, as well as a tool for climate action. As of August 2017, the Friends included nine countries: Costa Rica, Denmark, Ethiopia, Finland, New Zealand, Norway, Sweden, Switzerland and Uruguay. Over 40 countries supported a Friends’ communiqué calling for the phase-out of fossil fuel subsidies in the lead up to the Paris Agreement of 2015.

Some of the FFS reform commitments have a specific deadline. In 2016 (and as reconfirmed in 2017), G7 countries “committed to phasing out inefficient fossil fuel subsidies that encourage wasteful consumption, and encourage all countries to do so by 2025” (G7, 2016; G7 Energy Ministerial, 2017; G7 Environment Ministerial, 2017). Further, under the Europe 2020 Strategy launched in 2010, EU Member States committed to begin developing plans for phasing out environmentally harmful subsidies by 2020.

FFS reform is also a means of implementation of the UN Sustainable Development Goals (SDGs). The SDGs’ indicator 12.C.1 sets the basis for countries’ reporting on both production and consumption subsidies to fossil fuels from 2020 onwards. FFS reviews can have synergies with reporting on this indicator. For the full list of international commitments and supportive language on FFS see Annex 2.



The Building Blocks of FFS Reviews

Expert organizations such as the Organisation for Economic Co-operation and Development (OECD), International Energy Agency (IEA), International Monetary Fund (IMF), Global Subsidies Initiative (GSI) and several other think-tanks and non-governmental organizations have accomplished numerous reviews of subsidies to fossil fuel production and consumption. In contrast, this guidebook covers the two types of FFS reviews that are driven by countries themselves: self-reviews (or self-reports) and peer reviews (for which self-reports typically serve as a first step).

FFS reviews take different forms depending on the needs of the government in question. It can be helpful to think of different FFS review elements as Lego bricks that can be assembled in various configurations. These elements are: scope of an FFS review, identifying and defining FFS, measurement and description of FFS, their evaluation and, finally, next steps on the FFS under the review. The available options for each of the review elements are mostly combinable and are laid out in Table ES1 below.

FFS self- and peer reviews are not compliance mechanisms. FFS reviews are voluntary and owned by volunteering economies. The economy participating in the peer review decides on how to define the different elements, drawing on the solid body of expert literature. Peer reviews, in particular, are described as “a discussion among equals” (OECD, n.d.c).

The first step is to define the review scope and the underlying subsidy definition, which is normally done in consultations with experts and stakeholders. The subsidy definition contained in the World Trade Organization’s *Agreement on Subsidies and Countervailing Measures* is the most widely accepted and used. To ensure consistency of the review, it is strongly recommended to follow one of the common FFS reporting templates (see Annex 4).

Typically, FFS reviews go a step beyond subsidy listings and tend to focus on reform efforts. Some economies extend the scope of their FFS review to discuss the inefficiencies as well as sustainability and pollution issues in their energy sectors more broadly. For example, both Finland and Sweden have benefited from the broader scope of their reviews by examining FFS within the context of potentially environmentally harmful subsidies under the EU commitment to phase these out by 2020. Meanwhile, FFS reviews should specifically analyze the impact of FFS, and their possible reform, on the poorest.

Table ES1. Menu of combinable options for FFS reviews

Element	Selected combinable options
Identifying and Defining FFS	<p>Subject matter: a) Fossil fuels; b) Electricity and heat</p> <p>Definitions: a) WTO (ASCM); b) OECD's "Support"; c) IEA's "change in price or cost"; d) External costs e.g. IMF's "getting the prices right"</p>
Review Scope	<p>Subject matter: a) FFSs; b) FFS reform efforts; c) wider policies on the energy sector and energy-using technologies, e.g. transport; d) environmentally harmful subsidies</p> <p>Agencies involved: government bodies responsible for policies in the spheres of finance, energy, economic and regional development, trade and customs, investment, transport, agriculture, social protection and others as required.</p> <p>Geography: national, subnational and local level</p>
Subsidy Measurement	<p>Data collection with the use of common templates (Annex 4): a) start with the OECD Inventory and other available estimates from IEA, IMF, GSI and other expert and non-governmental organizations; b) ask ministries; c) commission an independent study.</p> <p>Method: The least disputable FFS measurement has always been governments' own estimates of direct budgetary transfers and tax expenditures that also underlie the OECD's inventory as well as the analysis by GSI and several other non-governmental organizations. Complimentarily to this approach, IEA uses price-gap assumptions to estimate price-related subsidies.</p>
FFS Evaluation	<p>"Inefficient": Evaluation and definition of efficiency within the context of each economy with view to a) stated policy objectives; b) availability of more efficient policies and thus the need for reform</p> <p>"Wasteful consumption": review a) unintended beneficiaries and b) unintended and suboptimal uses of energy</p> <p>"Providing targeted support for the poorest": social aspects of FFS and their reform are critical</p>
Next Steps on Subsidies Under Review	<p>a) Identification of need for reform and required action; b) publication and wider discussion with stakeholders.</p> <p>Translation into a national language critical for peer reviews.</p>

Source: Prepared by GSI



Takeaways from Accomplished FFS Reviews

This guidebook discusses each of the elements separately, and then brings them together again by describing the FFS review experiences of China, Finland, New Zealand, Peru and Sweden. The volunteering economies have built a body of FFS review precedents. The top tips from these precedents include:

- **Use the review and its elements to best serve the economy's needs** and focus it on the policies that are considered for reform. Many countries have also benefited from extending the scope of the review to broader energy-policy issues, energy-intensive industries and transport, and environmentally harmful subsidies. FFS reviews should specifically analyze the impact of FFS, and their possible reform, on the poorest.
- **Own the review in terms of government staff involvement** and thorough preparation of briefing materials by the government. Such preparation requires technical expertise and multidisciplinary collaboration of government agencies and other stakeholders.
- **Staff the government team and the reviewers panel with experts** who have technical expertise and experience working on multidisciplinary issues (and, for peer reviews, in different countries). Selection of the panel review team leader is crucial for an effective review process.
- **Allow sufficient time for the review process—at least half a year.** For peer reviews that require translation into the national language, the process can take longer, but such translations are critical for the review's coordination and success.
- **Mobilize sufficient financial resources for covering the cost of the review**, which is particularly important for advancing FFS peer reviews in developing economies. Within the G20, countries are expected to cover the costs of their own reviews, but for developing countries within and outside of APEC, the success of FFS reviews depends on donor assistance.
- **Use the review to support reforms.** FFS reviews can be used to promote transparency and ambition for reform, building political awareness of the issues. They can also draw on best practices of reform in other sectors and countries and provide a baseline for future policies.

FFS reviews encourage more interaction across government agencies on the evaluation and reform of policies supporting energy production and consumption. FFS reviews also serve as a basis for international exchange of FFS reform experience. However, all these benefits can be reaped only if governments invest in FFS reviews and use them to support reforms rather than undertaking them merely as a pro-forma exercise.

