The First Year of the G-20 Commitment on Fossil-Fuel Subsidies: A commentary on lessons learned and the path forward

JANUARY 2011

BY:
Kerryn Lang

For the Global Subsidies Initiative (GSI) of the International Institute for Sustainable Development (IISD)
Geneva, Switzerland
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LIST OF ACRONYMS

APEC  Asia-Pacific Economic Cooperation\(^1\)
ASEAN  Association of Southeast Asian Nations
G-20  Group of Twenty\(^2\)
GSI  Global Subsidies Initiative
IEA  International Energy Agency
IGO-4  The four intergovernmental organizations mandated to report to the G-20 on fossil-fuel subsidies\(^3\)
NAMA  Nationally appropriate mitigation action
NGO  Non-government organization
OECD  Organisation of Economic Co-operation and Development
OPEC  Organization of Petroleum Exporting Countries
UNEP  United Nations Environment Programme
UNFCCC  United Nations Framework Convention on Climate Change
WTO  World Trade Organization

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1. Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong China, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Chinese Taipei, Thailand, the United States and Vietnam.
2. Argentina, Australia, Brazil, Canada, China, European Union, France, Germany, India, Indonesia, Italy, Japan, Mexico, Republic of Korea, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom and the United States.
3. The IEA, OECD, OPEC and World Bank.
1. EXECUTIVE SUMMARY

During 2009 and 2010 government efforts to curb fossil-fuel subsidies burgeoned with fossil-fuel subsidy reform, becoming a frequent topic on international agendas. In September 2009, G-20 leaders recognized that “inefficient fossil fuel subsidies encourage wasteful consumption, distort markets, impede investment in clean energy sources and undermine efforts to deal with climate change” and announced a commitment to rationalize and phase out fossil-fuel subsidies over the medium term (G-20 Leaders, 2009). Following that announcement, in November 2009 the Asia-Pacific Economic Cooperation (APEC) forum made a similar pledge to phase out fossil-fuel subsidies, extending the commitment to an additional 11 countries. To support these initiatives, New Zealand established a Friends of Fossil-Fuel Subsidy Reform group of countries that include Denmark, Norway, Sweden and Switzerland. In addition, organizations such as the International Energy Agency (IEA), the Organisation for Economic Co-operation and Development (OECD), and the World Bank have boosted their research and policy programs that support fossil-fuel subsidy reform (see Box 1 for a timeline of events).

Much of the increased activity is a result of the G-20’s initiative and continued leadership. The G-20 have made good progress on the commitment: they established an energy and finance officials’ working group in early 2010, submitted national implementation strategies in June 2010, delegated reporting functions to intergovernmental organizations (the IEA, the OECD, the Organization of the Petroleum Exporting Countries [OPEC] and the World Bank) in November 2010, and plan to keep fossil-fuel subsidy reform on their agenda for 2011.

But the task of phasing out fossil-fuel subsidies is challenging and takes time. Much remains to be done by the G-20 to fulfil their medium-term commitment. Removing subsidies often requires a transition period, as there is a limit to which populations can easily adjust to fuel price increases. The transition needs to be monitored to ensure that reform is progressing and reported regularly to the G-20. The G-20 could also use this opportunity to improve the transparency of subsidy information by encouraging better national reporting on all subsidies (not just those intended for reform) and supporting organizations like the IEA and OECD in developing global data sets.

To achieve their energy security and climate change goals, the G-20 will also need to revise the scope of their national implementation strategies. The strategies that were submitted in June 2010 exclude many subsidies that encourage fossil-fuel production and consumption. As the subsidies that were originally targeted for reform are phased out, countries should continue to prioritize other fossil-fuel subsidies for reform. The G-20 could also encourage other countries or government forums to take up the commitment, thereby extending the global coverage of fossil-fuel subsidy reform.

More generally, national reform efforts would be better supported by international collaboration. The G-20 and APEC governments should share information and best practices from their subsidy reform efforts. Governments should look to build coalitions of support, as has the Friends group, and seek to introduce subsidy reform into other forums such as the UN Framework Convention on Climate Change (UNFCCC). Under the UNFCCC, for instance, developing countries could explore including subsidy reform as a nationally appropriate mitigation action (NAMA) and developed countries could establish a voluntary agreement to advance reporting or the reform of subsidies. More country-specific research, policy advice, technical assistance and workshops would also help governments to plan and overcome the challenges of subsidy reform. The Global Subsidies Initiative (GSI) has developed a roadmap, building on the G-20 and APEC commitments, to improve international collaboration for achieving comprehensive and lasting fossil-fuel subsidy reform (Lang, Wooders & Kulovesi, 2010).
1.1 TIMELINE OF KEY EVENTS

2009

22–23 APRIL
G-20 Ministerial Meeting: Agreed on process for submitting implementation strategies

24–25 SEPTEMBER
G-20 Pittsburgh Summit: Leaders commit to rationalize and phase out inefficient fossil-fuel subsidies over the medium term

14–15 NOVEMBER
17th APEC Economic Leaders’ Meeting: Leaders commit to rationalize and phase out fossil-fuel subsidies over the medium term

2010

18 FEBRUARY
IGO-4 technical workshop to coordinate preparation of the joint report

22–23 APRIL
G-20 Ministerial Meeting: Discussed definition and scope of commitment

2 AUGUST
G-20 reform strategies and the IGO-4 report made publicly available

27 OCTOBER
Friends group publishes first written statement about its membership and objectives

3 JUNE
New Zealand announces establishment of Friends of Fossil-Fuel Subsidy Reform group

4–5 JUNE
G-20 Ministerial Meeting: Discussed draft implementation strategies

18–20 JUNE
APEC 9th Energy Ministerial Meeting: Research program on fossil-fuel subsidies proposed

26–27 JUNE
G-20 Toronto Summit: G-20 leaders approve national implementation strategies

2 AUGUST
G-20 reform strategies and the IGO-4 report made publicly available

14–15 OCTOBER
GSI-UNEP conference: Increasing the momentum of fossil-fuel subsidy reform

27 OCTOBER
Friends group publishes first written statement about its membership and objectives

8 NOVEMBER
Oil Change International and Earth Track study conclude that the G-20 has taken no new action to reform fossil-fuel subsidies

10 NOVEMBER
G-20 Research Group publishes the 2010 G-20 Toronto Summit Final Compliance Report

11–12 NOVEMBER
G-20 Seoul Summit: Leaders delegate progress reporting to the IGO-4

18–19 NOVEMBER
OECD technical workshop on measuring energy subsidies

For a more detailed timeline of events, see: http://www.globalsubsidies.org/en
2. INTRODUCTION

Subsidies to fossil fuels are not only costly—the IEA estimates that, globally, we spent US$ 312 billion subsidizing fossil-fuel consumption in 2009—but they also work against global efforts to curb climate change by making high-emitting fossil fuels cheaper to produce and consume, and by distorting the market against renewable energies and clean technologies.

The twenty largest industrialized and emerging-market countries (G-20) recognized the need to reform these subsidies during their summit in Pittsburgh in September 2009 when they committed to “rationalize and phase out over the medium term inefficient fossil-fuel subsidies that encourage wasteful consumption” (G-20 Leaders, 2009).

Although they are a highly inefficient tool for alleviating poverty, subsidies are often used in developing countries to support the poor. The G-20 acknowledged in their commitment the need to prevent adverse impacts on the poorest by providing targeted cash transfers and other poverty-alleviation mechanisms.

To advance the initiative, G-20 leaders made a number of requests:

- For energy and finance ministers to prepare implementation strategies and timeframes, based on national circumstances, and report back at the 26–27 June 2010 summit in Toronto, Canada;
- For international organizations, namely the IEA, OECD, OPEC and World Bank (the “IGO-4”), to provide an analytical report on the scope of energy subsidies with suggestions for implementation, to be reported to G-20 leaders at the Toronto Summit in June 2010;
- For international financial institutions to offer support to countries in progressing the initiative; and
- For all nations to follow their lead and adopt policies to phase out inefficient fossil-fuel subsidies worldwide.

Unlike other government forums, such as APEC, the IEA and the OECD, the G-20 does not have a formal secretariat, or any permanent staff to coordinate or support implementation of its commitments. The G-20 chair rotates between members, and is selected from a different regional grouping of countries each year. To ensure continuity among the chairs, the G-20 is managed by a three-member “Troika” of past, present and future chairs. The current chair establishes a temporary secretariat for the duration of its term, which coordinates the group’s work and hosts meetings (G-20, 2010b). As part of the temporary secretariat functions, each chair also creates its own G-20 website, resulting in a new website for each summit (sometimes two per year).

In 2009, when the G-20 announced their commitment to reform fossil-fuel subsidies, the United Kingdom was the incumbent chair, sharing responsibilities with the United States, which hosted the second Leaders’ Summit for 2009 in Pittsburgh. The United States was the main driver behind the commitment on fossil-fuel subsidies and continued to lead the implementation process, together with the United Kingdom, mobilizing energy and finance officials in G-20 capitals to engage in a dialogue and to set deadlines for preparing the implementation strategies. This process turned into the G-20 Energy Working Group.

This report offers a commentary on the first year of the G-20’s commitment to reform fossil-fuel subsidies, and the actions of other governments and organizations that have contributed to the reform movement. It draws lessons that can be learned from that first year and looks ahead at what further progress the G-20 and international community can make to enhance global and national efforts to reduce fossil-fuel subsidies that work against climate change and sustainable development objectives.
3. LESSONS LEARNED: FROM PITTSBURGH TO THE SEOUL SUMMIT (2009–10)

3.1 EARLY CONSULTATIONS WITH G-20 MEMBERS

In the early stages of the G-20 initiative to phase out fossil-fuel subsidies (January–June 2010), the GSI undertook a series of consultations with G-20 governments to better understand their national priorities and challenges for implementation, and to gauge the level of interest in sharing technical capacity, information and best practice. During this process, the GSI contacted all G-20 governments and met with 11: Argentina, Australia, Brazil, Canada, Indonesia, Italy, Japan, Korea, Mexico, the U.K. and the United States.

Lessons learned: Fossil-fuel subsidy reform requires coordination across a range of ministries

Fossil-fuel subsidies fall across the responsibility of a range of government departments in each country—foreign affairs, finance, energy, tax, economic development and national planning, to name a few. The G-20 commitment triggered many of the member governments to establish working groups made up of officials from the relevant ministries to coordinate the national implementation strategies.

It was noted by some officials at the beginning of the process that it was difficult to identify their counterparts in other governments in order to discuss the issue. With so many officials involved, members should nominate a national contact point to coordinate communications with other governments or share a list of contact points with each person’s area of responsibility.

In addition, the GSI developed a listserv with over 100 G-20 officials and subsidy experts working on the initiative that can be used as a communications platform for sharing information, research and announcements.

Throughout the consultations with the 11 G-20 members, the issues and types of subsidies discussed ranged widely, including fuel-price subsidies (mostly for gasoline and diesel) for general consumption or for specific industries such as fisheries; corporate tax breaks for fossil-fuel producers; domestic heating subsidies; subsidies for energy supply to remote regions; reduced value-added tax for energy products or services; and exemptions for certain industries from environmental or carbon taxes.

Across this range of issues, some key observations emerged from the consultations:

On the G-20 process:

- Most members place priority on implementing existing G-20 commitments, as they see it is important for the G-20 to be effective and remain the primary international forum for setting global economic policy.
- Most of the G-20 countries were very clear that the implementation process should be “country owned and country led.” Some countries added that peer pressure from within the group or pressure from international organizations and civil society would help to improve implementation of the reform plans and transparency of the G-20 process.
- Some G-20 countries also expressed a desire to see non-G-20 governments and other government forums (such as APEC or the Association of Southeast Asian Nations [ASEAN]) take on a similar commitment to reform fossil-fuel subsidies.
Challenges and priorities:

- Despite the wide range of subsidies used, political economy challenges are common. Gaining multi-stakeholder support for reform (especially from civil society and parliamentarians for consumer subsidies) can be extremely difficult and may require a policy package that caters to a range of interests in order to secure buy-in from those important stakeholder groups.

- Some governments that have been trying to reform fossil-fuel subsidies, but have encountered strong domestic opposition to the reforms, see the G-20 commitment as an opportunity to push domestic reform forward by showing solidarity with an international call to action.

Information sharing and cooperation:

- In the early stages of the process, it was not clear how responsibility in each country is broken down between energy, finance and other ministries. Some G-20 members indicated it would be useful to chart the responsibilities with contact points in each country.

- Countries also expressed the need for research and technical assistance from intergovernmental organizations and NGOs, as well as sharing of information and best practice among G-20 members, including:
  - Exchange of information and technical expertise (like a news service) internally within the G-20 and IGO-4 as well as with other expert organizations;
  - Policy guidance, for example, relating to definitions and scope;
  - Technical assistance, including assistance with designing and implementing social safety nets or undertaking reviews of subsidy policies;
  - Compilations of best practice and case studies of reform, including examples of identifying and quantifying subsidies;
  - Help with the design of monitoring and accountability approaches that the G-20 might use (e.g., regular reporting mechanisms, third-party review).

Lessons learned: NGOs need to be constructive to be involved in the G-20 process

As governments were still largely in negotiating mode when the GSI undertook its series of consultations, government sensitivities were high and a lot of the information exchange was confidential. The GSI, an NGO that promotes transparency, needed to be constructive and build trust with the governments in order to remain engaged in the process.

In October 2010 the GSI and UNEP jointly held an international conference on fossil-fuel subsidy reform with the objective of sharing information among forums such as the G-20, APEC and Friends group, and informing those governments of the latest research on fossil-fuel subsidies. One of the key outcomes of the conference was the recognition that governments and organizations need to cooperate, share information and build coalitions to leverage greater impact for their efforts to curb fossil-fuel subsidies.

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5 For a full report and copies of the presentations delivered at the conference, see: http://www.globalsubsidies.org/research/gsi-unep-conference-increasing-momentum-fossil-fuel-subsidy-reform-developments-and-opportu
3.2 THE G-20 ENERGY AND FINANCE OFFICIALS’ WORKING GROUP

To coordinate implementation of the commitment, the G-20 established a working group of energy and finance officials responsible for developing the national implementation strategies. In addition to coordinating the process, this working group discussed a range of issues relating to the scope of the commitment.

One of the first and most substantive issues that arose during the discussions in the working group was whether the group could agree to a common definition of “subsidy.” Some members proposed adopting an existing definition such as that used by the IEA or the World Trade Organization (WTO), while other countries proposed creating a new definition for the purposes of the G-20 commitment. Given the diverse range of interests involved—from the production subsidies for oil, coal and gas, which are fiercely defended by industry groups in countries like the United States and Canada; to the consumption subsidies in India, Indonesia and Saudi Arabia, which enjoy support from the wider population—agreeing to a common definition proved difficult. G-20 members were reluctant to adopt a comprehensive definition such as that used by the WTO or IEA. Officials also discussed the qualifying terms used in the declaration such as “inefficient” and “wasteful consumption” with a view to narrowing the scope of the commitment, but, again, came to no agreement.

Rather, it was decided that the initiative—and the definition—should be “country owned and country led.” The benefits of this approach are that countries are free to choose which subsidies to focus reform efforts on, without closing the door to incorporating additional subsidies for reform in future. The working group did agree that the commitment was not limited only to consumer subsidies, but that producer subsidies should also be included in the reform efforts.

The working group undertook a rush of activity between the Pittsburgh summit in September 2009 and the Toronto summit in June 2010 to prepare the national implementation strategies. Given the short lead-in time and the large coordinating efforts required by governments, submitting the implementation strategies within nine months was no small feat.

Once the implementation strategies were submitted to leaders in Toronto, the activity of the officials’ working group eased as efforts shifted to undertaking domestic reform. The group continues to meet and communicate but its mandate has been extended to cover two additional issues: energy price volatility and protection of the marine environment (instigated after the BP Horizon spill). Depending on the priority of the incumbent chair, fossil-fuel subsidies are likely to get less attention as the agenda evolves.

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6 For more information about these and other definitions of “subsidy,” see GSI, March 2010.
Lessons learned: Define—Measure—Evaluate subsidies to identify priorities for reform

Subsidy reform can easily become bogged down in the attempt to create or agree on a suitable definition of “subsidy.” There are sound definitions already available and used by the international community, for example the WTO’s comprehensive definition of “subsidy” in the Agreement on Subsidies and Countervailing Measures. However, governments can be reluctant to adopt a comprehensive definition, as they assume that they will then need to reform all subsidies identified under that definition. To avoid this, governments often seek to narrow the definition in order to narrow their reform commitments.

The GSI recommends a three-step process to define, measure and evaluate subsidies in order to prioritize reform efforts. This process starts with a broad definition of “subsidy” for the purpose of identifying all existing subsidies in the sector, whether those subsidies are considered “good” or “bad.” This provides a comprehensive starting point for the analysis to follow. Then, estimating the value of the subsidies identified will help with the third stage: evaluating whether the subsidies are the most effective use of public resource for achieving their policy objectives or whether they need to be reformed. This approach will also provide a more complete picture of the total value of subsidies given to a particular sector and their combined impacts for better evaluating priorities for reform.

Reporting on all subsidies, whether intended for reform or not, will also serve to improve transparency and accountability of government expenditures.

For more information about the definition of “subsidy,” see the GSI’s policy brief Defining Fossil-Fuel Subsidies for the G-20: Which approach is best?

3.3 NEW RESEARCH FROM INTERGOVERNMENTAL ORGANIZATIONS

The energy and finance officials’ working group was also supported by the four intergovernmental organizations—the IEA, OECD, OPEC and World Bank—that were asked to provide a report on the scope of energy subsidies and suggestions for implementation of subsidy reform. The joint report submitted to leaders in Toronto, June 2010, provided a comprehensive overview of global consumer subsidy estimates; gaps in the existing data and the challenges of estimating subsidies; the economic, trade and environmental impacts of subsidy reform; and general policy advice and lessons-learned case studies for policy-makers (IEA, OPEC, OECD, World Bank, 2010).

In addition, the IEA dedicated two chapters of the World Energy Outlook 2010 to analyzing fossil-fuel subsidies, including case studies of subsidy policies in Iran, Russia, China, India and Indonesia. The IEA intends to update its consumption-subsidy estimates on an annual basis and to create an online database that allows public access to data disaggregated by country, by fuel and by year. The OECD is also developing a database of subsidy policies and estimates for the production and consumption of fossil fuels in its member countries.

For the following summit, in Seoul in November 2010, the G-20 requested a second report with updated data from the World Energy Outlook 2010. The IGO-4 received the request with only three weeks’ notice to prepare the report, and, as a result, OPEC refrained from contributing. The second report included updated information on the IEA’s consumer subsidy estimates and analysis of the impacts of reforming those subsidies, a refined version of the World Bank’s roadmap for reform, along with examples of recent action taken to phase out subsidies in the G-20 and other countries (IEA, OECD and World Bank, 2010).
3.4 NON-G-20 GOVERNMENTS JOIN THE REFORM MOVEMENT

Shortly after G-20 leaders first announced their commitment to rationalize and phase out inefficient fossil-fuel subsidies, APEC leaders announced a similar pledge in November 2009. Although there is some overlap in the membership of both forums, the APEC pledge extends the commitment to an additional 11 countries. The APEC forum is taking a different approach to implementation than the G-20, as it has a formal secretariat and working group through which it can advance research and develop best practice. The APEC Energy Working Group will undertake research on fossil-fuel subsidies within its member countries to better inform medium-term reform efforts.

Another outcome of the G-20 commitment has been the establishment of the Friends of Fossil-Fuel Subsidy Reform group of countries, currently comprising Denmark, New Zealand, Norway, Sweden and Switzerland. The Friends group plans to support the G-20 initiative and encourage the G-20 to be ambitious and transparent in its implementation of subsidy reform (Vitalis, 2010).

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7 Brunei Darussalam, Chile, Chinese Taipei, Malaysia, New Zealand, Papua New Guinea, Peru, the Philippines, Singapore, Thailand and Vietnam.
Lessons learned: G-20 can leverage impacts greater than the national reform efforts of its members

The impact of the G-20 commitment has extended beyond the national reform efforts of its 20 members. It has also influenced other government actions such as the APEC commitment and the establishment of the Friends of Fossil-Fuel Subsidy Reform group, mentioned above. The mandate given by the G-20 to IGO-4 has boosted new research, data collection and policy advice to support the G-20 and other governments and improved transparency of subsidies. The G-20’s pledge has also generated more public interest in the issue from NGOs and media, particularly around the G-20 summits.

3.5 G-20 IMPLEMENTATION STRATEGIES AND TIMELINES

At the Toronto summit in June 2010, G-20 members submitted their implementation strategies and timelines for phasing out inefficient fossil-fuel subsidies. Of the 20 members, 13 submitted implementation strategies for at least one fossil-fuel subsidy and seven countries (Australia, Brazil, France, Japan, Saudi Arabia, South Africa and the United Kingdom) stated they have no inefficient fossil-fuel subsidies to be phased out. In addition, the European Commission provided information on the review of its Energy Taxation Framework and its medium-term commitment to phase out environmentally harmful subsidies (see summary table of implementation strategies and timetables; the full submissions are available online [G-20, 2010a]).

<table>
<thead>
<tr>
<th>Country</th>
<th>Summary of implementation strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>Proposes to reduce household subsidy for propane gas consumption as natural gas access is expanded.</td>
</tr>
<tr>
<td>Australia</td>
<td>No inefficient fossil fuel subsidies.</td>
</tr>
<tr>
<td>Brazil</td>
<td>No inefficient fossil fuel subsidies. Lists several government measures in the energy sector related to the production or consumption of fossil fuels.</td>
</tr>
<tr>
<td>Canada</td>
<td>Proposes to implement recently released draft legislation to phase out the accelerated capital cost allowance for oil sands assets over the 2011-15 period. Previously phased out other tax preferences applying to fossil fuel producers.</td>
</tr>
<tr>
<td>China</td>
<td>Proposes to gradually reduce the urban land-use tax relief for fossil fuel producers.</td>
</tr>
<tr>
<td>France</td>
<td>No inefficient fossil fuel subsidies. Previously reformed subsidies for hard coal mining.</td>
</tr>
<tr>
<td>Germany</td>
<td>Proposes to discontinue subsidized coal mining in a socially acceptable manner by the end of 2018.</td>
</tr>
<tr>
<td>India</td>
<td>Proposes to work out implementation strategies and timetables for rationalizing and phasing out fossil-fuel subsidies based on the recommendation of the Empowered Group of Ministers that has been constituted.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Proposes to phase out inefficient fossil-fuel subsidies in a gradual manner in parallel through managing the demand side by adopting measures that will reduce fossil-fuel energy consumption and by gradually narrowing the gap between domestic and international prices.</td>
</tr>
</tbody>
</table>
TABLE 1: SUMMARY TABLE OF IMPLEMENTATION STRATEGIES AND TIMETABLES (CONTINUED)

<table>
<thead>
<tr>
<th>Country</th>
<th>Summary of implementation strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>Proposes to continue with planned expiration of subsidy for certain cogeneration plants, and negotiate on a voluntary basis with private operators of these plants on the timing of their recess from the subsidy scheme.</td>
</tr>
<tr>
<td>Japan</td>
<td>No inefficient fossil-fuel subsidies.</td>
</tr>
<tr>
<td>Korea</td>
<td>Proposes to phase out subsidies to anthracite coal and briquette producers.</td>
</tr>
<tr>
<td>Mexico</td>
<td>By continuing current policies and based on current market conditions, subsidies to gasoline, diesel and LP gas are expected to disappear in the medium term.</td>
</tr>
<tr>
<td>Russia</td>
<td>Proposes to implement the commitment to rationalize and phase out inefficient fossil-fuel subsidies through national economic and energy policy, within the framework of its Energy Strategy 2030 and the Concept of Long-Term Social and Economic Development, as well as in the context of its joining the WTO.</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>No inefficient fossil fuel subsidies. Saudi Arabia has a long-standing energy policy to improve the utilization of economic resources with emphasis on rationalization.</td>
</tr>
<tr>
<td>South Africa</td>
<td>No inefficient fossil fuel subsidies. Noting recently introduced electricity tax that applies to electricity generated from non-renewables as well as other relevant tax measures and incentives to reduce wasteful consumption and encourage clean energy development.</td>
</tr>
<tr>
<td>Spain</td>
<td>Proposes to implement current coal industry restructuring plan until 2012 when further restructuring will be considered.</td>
</tr>
<tr>
<td>Turkey</td>
<td>Proposes to work on a restructuring plan to rationalize the inefficient producer subsidies transferred to a state-owned hard coal producing enterprise.</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>No inefficient fossil-fuel subsidies. Previously reformed subsidies for hard coal mining.</td>
</tr>
<tr>
<td>United States</td>
<td>Proposes to pass legislation to eliminate twelve preferential tax provisions related to the production of coal, oil and natural gas.</td>
</tr>
</tbody>
</table>

Source: G-20 submissions (G-20, 2010a)

3.6 ASSESSMENT OF THE G-20 STRATEGIES AND TIMELINES

The G-20 Research Group at the University of Toronto prepares compliance reports for G-20 summits, outlining the progress members have made towards implementing their commitments. The assessment scores G-20 members on a scale of -1 to +1, where +1 indicates full compliance with the commitment, 0 indicates partial compliance or a work in progress, and -1 indicates a failure to comply or actions that conflict with the goal of the commitment.

The G-20 Research Group’s key findings indicate that, of the 10 commitments assessed, the commitment to reform fossil-fuel subsidies scored the second-lowest rate of compliance. The report concludes that 11 members are in full compliance (Australia, Brazil, France, Germany, Italy, Japan, Korea, Mexico, South Africa, Saudi Arabia and the United Kingdom); seven members have made some progress towards meeting their commitment (Argentina, Canada, China, Indonesia, Russia, Turkey and the United States); and two members (India and the EU) have failed to comply (G-20 Research Group, 2010).

However, the G-20 Research Group’s assessment has some inconsistencies and fundamental flaws. For example it scores the EU -1, as failing to comply with the commitment, because it extended the phase out
of state aid for hard coal, and yet Germany, which pushed for that extension, scores +1 for full compliance even though it will continue to provide subsidies for coal until the end of 2018. Also, rather than measuring progress against the commitment, the assessment measures progress against the implementation strategies that were submitted in June 2010, a much lower benchmark. Therefore those members that declared they have “no inefficient fossil-fuel subsidies” in their implementation strategies were considered to be in full compliance even where global estimates in the *World Energy Outlook 2010* would indicate otherwise. For example, Saudi Arabia claimed it has no inefficient fossil-fuel subsidies and yet the *World Energy Outlook 2010* estimates that its subsidies for fossil-fuel consumption were worth US$ 35 billion in 2009 (IEA, 2010).

Two NGOs, Oil Change International and Earth Track, provide an alternative evaluation of whether the G-20 governments are meeting their commitment. According to their report, half of the member countries reported at least one policy supporting fossil fuels that they have targeted for reduction or elimination, but no country has initiated subsidy reform specifically in response to the G-20 commitment. According to the two NGOs, all subsidy reforms mentioned in the submissions appear to be programs or changes that were already underway prior to the G-20 announcement and still rely on previously established timelines.

The report finds that many fossil-fuel subsidies are excluded from the submissions. For example, all G-20 members neglected to report support for fossil fuels from multilateral development banks and export-credit agencies. The report highlights some of the obvious gaps in each country’s reporting and how it could be improved. For example, Indonesia, Russia and Mexico discussed subsidies generally without reporting any specific subsidy policies. The report also highlights countries such as Saudi Arabia and South Africa that report they have no inefficient fossil-fuel subsidies despite evidence to the contrary. Canada submitted a reform plan for one fossil-fuel subsidy worth US$ 300 million per year whereas an independent report by GSI shows that Canadian federal and provincial governments provided at least CDN$ 2.84 billion worth of subsidies in 2008. Another report by the GSI shows that Brazil, Mexico, the United Kingdom and the United States have fossil-fuel subsidies that were not included in their G-20 submissions (GSIc, 2010).

Koplow and Kretzman (2010) provide a number of recommendations to improve the G-20’s compliance with its fossil-fuel subsidy commitment:

1. Separate reporting from reform: reporting of all fossil-fuel subsidies should be mandatory, regardless of whether the country intends to reform the subsidies or not
2. Establish an oversight and review mechanism for reporting that includes:
   • Phase-in reporting by subsidy categories (e.g., transition to comprehensive reporting over a three-year timeframe)
   • Supplement reporting with technical guidance
3. Third-party certification of data (similar to practices adopted for financial reporting or as part of the National Communications Reporting under the UNFCCC process).
4. Establish a standardized submittal process for subsidy information, including a formal justification for policies that countries wish to exclude from the reform commitment
5. Establish an external committee to address recurring subsidy definition, valuation or impact issues
6. Ensure subsidy reform actually happens: consider the possible institutional models for transparency and reform, such as the International Accounting Standards Board or the UNFCCC

Fossil-fuel subsidies are a complex topic and it takes time to gather data and to provide analysis on the nature and extent of their use and impact. The implementation strategies submitted in Toronto in June 2010 only cover some of each country’s fossil-fuel subsidies. To effectively meet the commitment, reform will need to be planned over a longer timeframe. Indeed, the G-20 have recognized this will be a “medium-term” commitment.
4. LOOKING AHEAD

4.1 EXPECTATIONS OF THE G-20

Governments often take several years to phase out a subsidy, so it will be vital to monitor and report progress of the initiative on an ongoing basis. At the Seoul Summit in November 2010, G-20 leaders delegated progress reporting on the implementation of subsidy reform to the IGO-4. It is not yet clear how the IGOs will coordinate the progress reports or what form the reports will take. It is still possible that G-20 members will choose to self-report rather than rely on the IGOs to do the reporting for them. The progress reports, regardless of whom they are prepared by, should be submitted regularly and be made publicly available.

The G-20 could also use this initiative to improve transparency and reporting of subsidy data more generally, which in the longer term will aid comprehensive fossil-fuel subsidy reform. As a result of the G-20 initiative, the IEA will update its database of consumption subsidies on an annual basis and the OECD is developing a database of subsidies for both production and consumption. However, even with these two databases, there will be large gaps in the datasets, as they do not cover all countries and subsidies, particularly those that are not already reported in government accounts or in the literature.

The G-20 should also consider more formal options for monitoring progress against the commitment, for example, by: establishing a peer-review process for the progress reports; improving the reporting of subsidies within the WTO (for which all the G-20, pending Russia’s accession, are members); introducing subsidy reporting into national communications under the UNFCCC; or establishing a secretariat (in either an existing or new organization) to share information and reports.

With a view to achieving ambitious and comprehensive reform, the G-20 will need to regularly revise the scope of their national implementation strategies. As the subsidies identified in the June 2010 implementation strategies are phased out, G-20 members should look to expand their reform plans to include other fossil-fuel subsidies, such as those highlighted in the reports by Koplow and Kretzman (2010) and the GSI (Sawyer & Stiebert, 2010; GSI, 2010).

Under the 2010 chair, Korea started a process of “inclusive outreach” to non-G-20 governments and international organizations. The G-20, under the French chair for 2011, should continue this collaborative approach, particularly with those countries the G-20 has influenced, such as the APEC forum and Friends of Fossil-Fuel Subsidy Reform group of countries. The G-20 could continue to encourage other countries to reform harmful subsidies by offering to share information and best practices from G-20 members’ subsidy reform efforts or by raising the topic for discussion in other forums such as the UNFCCC.

In addition, the G-20 could cooperate with international organizations (governmental and non-governmental) to disseminate information, research, technical assistance and best practices, and to convene workshops or other capacity-building activities.
4.2 ROADMAP FOR INTERNATIONAL COLLABORATION

The GSI has developed a roadmap for improving international collaboration on fossil-fuel subsidy reform (Lang, Wooders, & Kulovesi, 2010).

Over the next 12 months, in addition to the G-20’s continued leadership, the support of APEC and the Friends group, and gradual incorporation of other countries into a mutually supportive network will strengthen and extend the commitments.

Over the next two years, APEC’s Energy Working Group plans to undertake a project to analyze energy subsidies within the membership to enable APEC members to take more concrete steps to rationalize and reform subsidies. The project will include a report on the nature of subsidies affecting fossil-fuel production and consumption in APEC countries, the magnitude and impacts of those subsidies, and the benefits of phasing them out. The Energy Working Group also plans to share best-practice case studies on issues such as protecting low-income households and methodologies for prioritizing subsidy reduction (Yoshida, 2010).

The Friends group is also considering opportunities to contribute to other international and regional forums, for example meeting around the UNFCCC conference of the parties and supporting work on fossil-fuel subsidy reform within the OECD.

Compared with 2009, many countries are already much more capable of discussing subsidies and considering what commitments they could make. With the G-20 and APEC commitments now embedded on their agendas, and as the Friends group becomes more established, international cooperation could use the support of more formalized secretariat functions to arrange meetings of experts, provide analysis and set up reporting, and review mechanisms. In the next one to three years, the ground could also be prepared to introduce the commitments in other forums.
Within the UNFCCC, for instance, developing countries could explore how to include fossil-fuel subsidy reform within their nationally appropriate mitigation actions (NAMAs). The GSI has identified four options that require further analysis: (i) fossil-fuel subsidy reform as a unilateral commitment; (ii) technical and financial assistance to develop subsidy reform as a NAMA; (iii) assistance to finance the flanking measures required to protect poor and vulnerable groups from any negative fallout from subsidy reform; and (iv) credits for reductions in greenhouse gas emissions that result from subsidy reform. A group of countries like the G-20 or Friends group could champion these options with a non-paper or side event at the next Conference of the Parties to get the issue on the UNFCCC's agenda.

The ideal end-point would see a negotiated agreement, housed in a single institution such as the WTO or UNFCCC. For a full discussion of the strengths and weaknesses of negotiating fossil-fuel subsidy reform within the WTO, UNFCCC or other international organizations, see GSI’s report Increasing the Momentum of Fossil-Fuel Subsidy Reform: A Roadmap for international cooperation (Lang, Wooders, & Kulovesi, 2010).

5. CONCLUSIONS

The first year of the G-20’s commitment to reform fossil-fuel subsidies has had an effective impact beyond the national boundaries of its membership. Not only have 13 members submitted implementation strategies for reforming some fossil-fuel subsidies, but the G-20 has encouraged international organizations and other governments to contribute towards a global subsidy reform movement.

Despite the success of the first year, we should not lose sight of fact that the G-20 and APEC have made commitments for the medium term. Fossil-fuel subsidies are pervasive and their reform needs to be carefully planned, implemented and monitored. For comprehensive and lasting reform, the G-20 will need to continue to monitor their progress towards phasing out fossil-fuel subsidies and to improve reporting of all subsidies, not just those slated for reform. The G-20 should also look to support its members to implement national reform through sharing of information, best practice and technical assistance.

Looking beyond its own membership, the G-20 should continue to provide leadership within the international community by facilitating more dialogue with other government forums such as APEC and the Friends of Fossil-Fuel Subsidy Reform group, and introducing the discussions to forums such as the UNFCCC. International collaboration could also seek to help developing countries to advance subsidy reform through sharing case studies of best practice, technical assistance and holding national or regional workshops for policy-makers. In addition, the G-20 and other governments should support the IGOs and other expert organizations to undertake more country-specific research and to provide policy guidance.

The first year of the G-20’s commitment to reduce fossil-fuel subsidies has seen the beginning of a growing international movement to reform fossil-fuel subsidies. It provides a significant opportunity to put into effect lasting reform that will help governments to meet their climate change and sustainable development goals.
6. REFERENCE LIST


G-20b. What is the G-20? 2010. 29 December 2010 <http://www.g20.org/about_what_is_g20.aspx>


THE GLOBAL SUBSIDIES INITIATIVE (GSI) OF THE INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT (IISD)

The International Institute for Sustainable Development (IISD) launched the Global Subsidies Initiative (GSI) in December 2005 to put a spotlight on subsidies – transfers of public money to private interests – and how they undermine efforts to put the world economy on a path toward sustainable development.

Subsidies are powerful instruments. They can play a legitimate role in securing public goods that would otherwise remain beyond reach. But they can also be easily subverted. The interests of lobbyists and the electoral ambitions of officeholders can hijack public policy. Therefore, the GSI starts from the premise that full transparency and public accountability for the stated aims of public expenditure must be the cornerstones of any subsidy program.

But the case for scrutiny goes further. Even when subsidies are legitimate instruments of public policy, their efficacy – their fitness for purpose – must still be demonstrated. All too often, the unintended and unforeseen consequences of poorly designed subsidies overwhelm the benefits claimed for these programs. Meanwhile, the citizens who foot the bills remain in the dark.

When subsidies are the principal cause of the perpetuation of a fundamentally unfair trading system, and lie at the root of serious environmental degradation, the questions have to be asked: Is this how taxpayers want their money spent? And should they, through their taxes, support such counterproductive outcomes?

Eliminating harmful subsidies would free up scarce funds to support more worthy causes. The GSI’s challenge to those who advocate creating or maintaining particular subsidies is that they should be able to demonstrate that the subsidies are environmentally, socially and economically sustainable – and that they do not undermine the development chances of some of the poorest producers in the world.

To encourage this, the GSI, in cooperation with a growing international network of research and media partners, seeks to lay bare just what good or harm public subsidies are doing; to encourage public debate and awareness of the options that are available; and to help provide policy-makers with the tools they need to secure sustainable outcomes for our societies and our planet.

www.globalsubsidies.org

The GSI is an initiative of the International Institute for Sustainable Development (IISD). Established in 1990, the IISD is a Canadian-based not-for-profit organization with a diverse team of more than 150 people located in more than 30 countries. The GSI is headquartered in Geneva, Switzerland and works with partners located around the world. Its principal funders have included the governments of Denmark, the Netherlands, New Zealand, Norway, Sweden and the United Kingdom. The William and Flora Hewlett Foundation have also contributed to funding GSI research and communications activities.

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