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The classification of fossil fuel subsidies: A discussion at risk of going off the rails?

Fossil Fuel Subsidy Reform Group meeting, 18 July 2023

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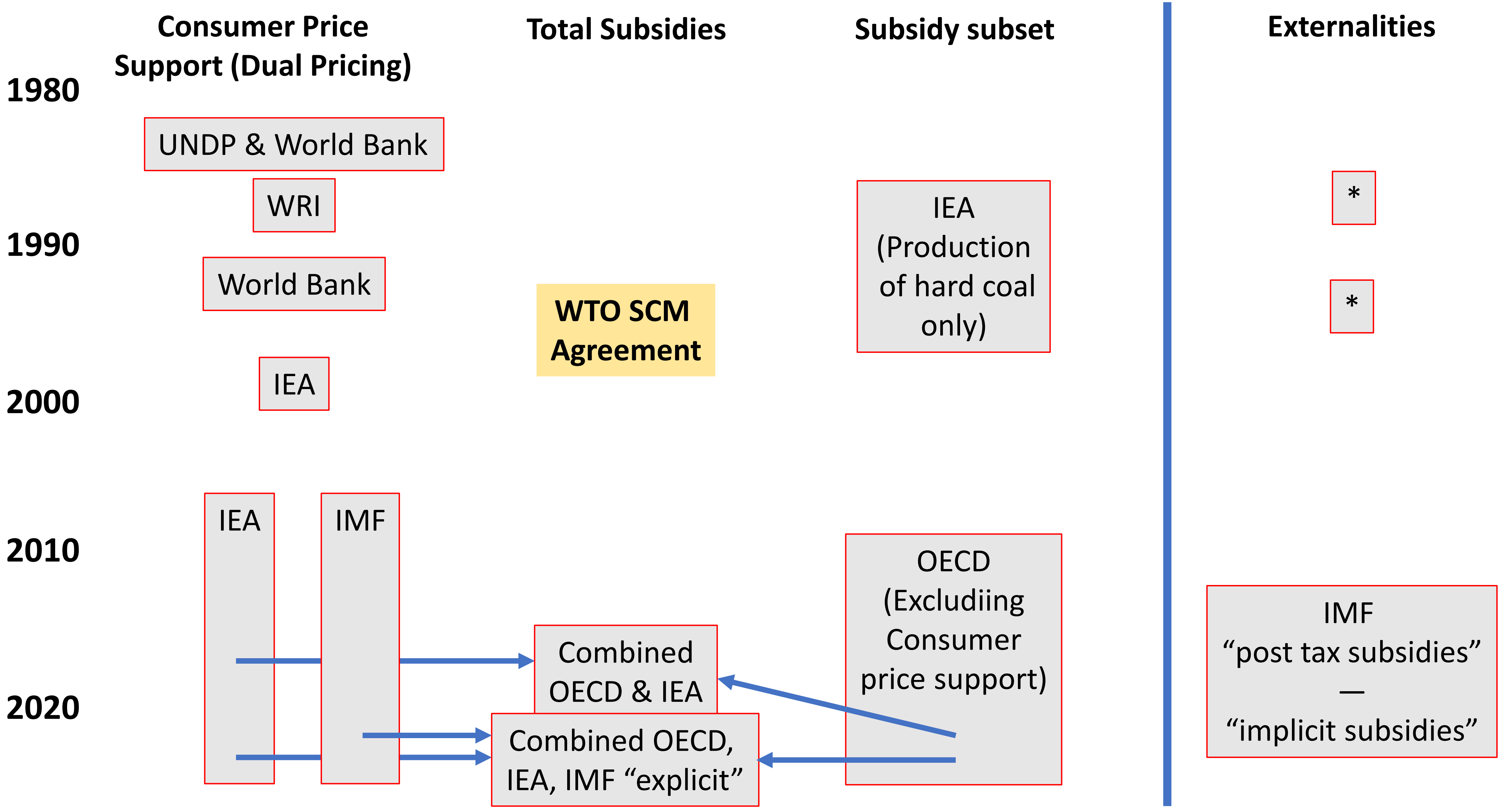
Strong centrifugal forces at work on subsidies

- The WTO is custodian of an internationally agreed definition of a “subsidy”.
- When approaching subsidies to particular sector, some subsidy estimators want to reinvent the wheel.
- Portrayal of the work of the OECD, IEA, World Bank, UNEP often stresses their differences.
- While the portrayal of the work of the IMF often glosses over how different it is from the others’ work.

A brief history of fossil-fuel subsidy measurement



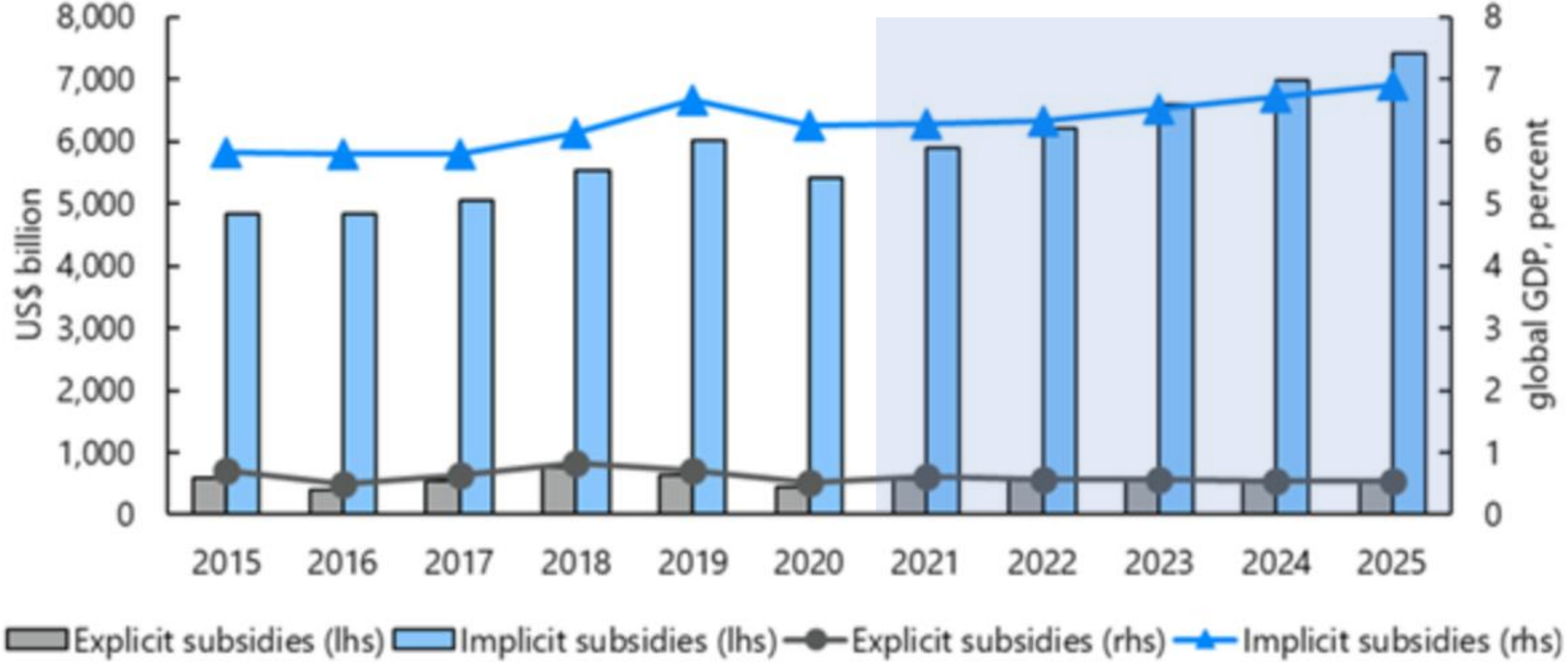
The subsidy “matrix” dates back to the OECD (2011)

Figure 1.1. Matrix of support measures, with examples

	Statutory or Formal Incidence (to whom and what a transfer is first given)								
	Production							Direct consumption	
	Output returns	Enterprise income	Cost of intermediate inputs	Costs of Production Factors					
Transfer Mechanism (how a transfer is created)				Labour	Land	Capital	Knowledge	Unit cost of consumption	Household or enterprise income
Direct transfer of funds	Output bounty or defficiency payment	Operating grant	Input-price subsidy	Wage subsidy	Capital grant linked to acquisition of land	Capital grant linked to capital	Government R&D	Unit subsidy	Government-subsidized life-line electricity rate
Tax revenue foregone	Production tax credit	Reduced rate of income tax	Reduction in excise tax on input	Reduction in social charges (payroll taxes)	Property-tax reduction or exemption	Investment tax credit	Tax credit for private R&D	VAT or excise-tax concession on fuel	Tax deduction related to energy purchases that exceed given share of income
Other government revenue foregone	Reduced resource-rent tax		Under-pricing of a good, government service or access to a natural resource		Under-pricing of access to government land; reduced royalty payment		Government transfer of intellectual property right	Under-pricing of access to a natural resource harvested by final consumer	
Transfer of risk to government	Government buffer stock	Third-party liability limit for producers	Provision of security (e.g., military protection of supply lines)	Assumption of occupational health and accident liabilities	Credit guarantee linked to acquisition of land	Credit guarantee linked to capital		Price-triggered subsidy	Means-tested cold-weather grant
Induced transfers	Import tariff or export subsidy	Monopoly concession	Monopsony concession; export restriction	Wage control	Land-use control	Credit control (sector-specific)	Deviations from standard IPR rules	Regulated price; cross subsidy	Mandated life-line electricity rate

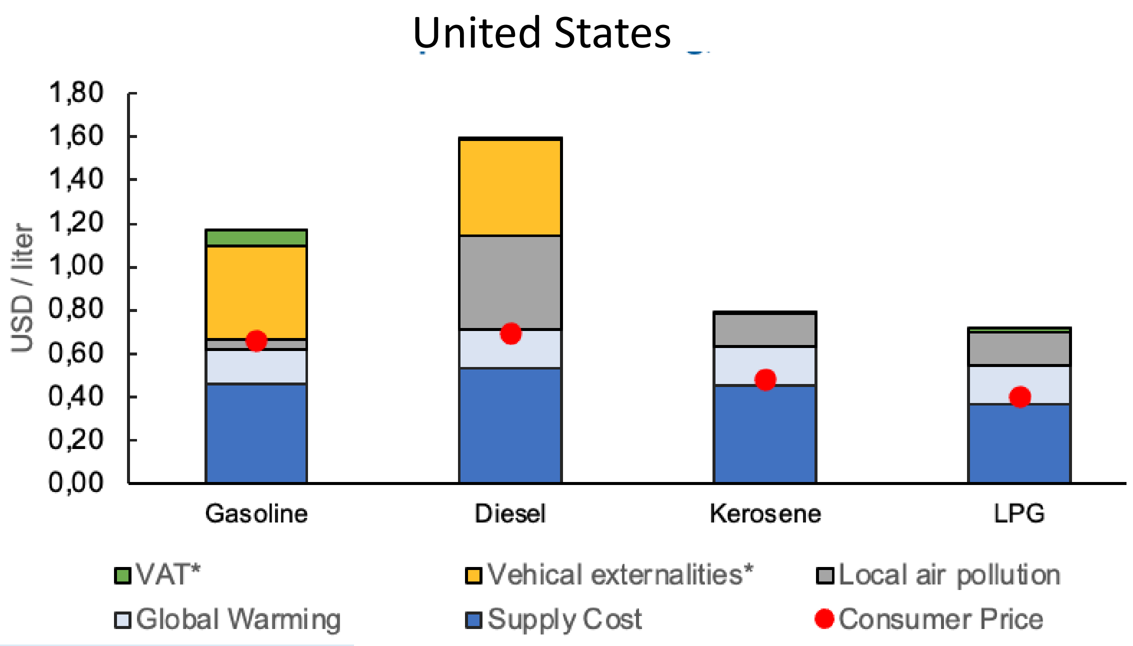
Source: OECD.

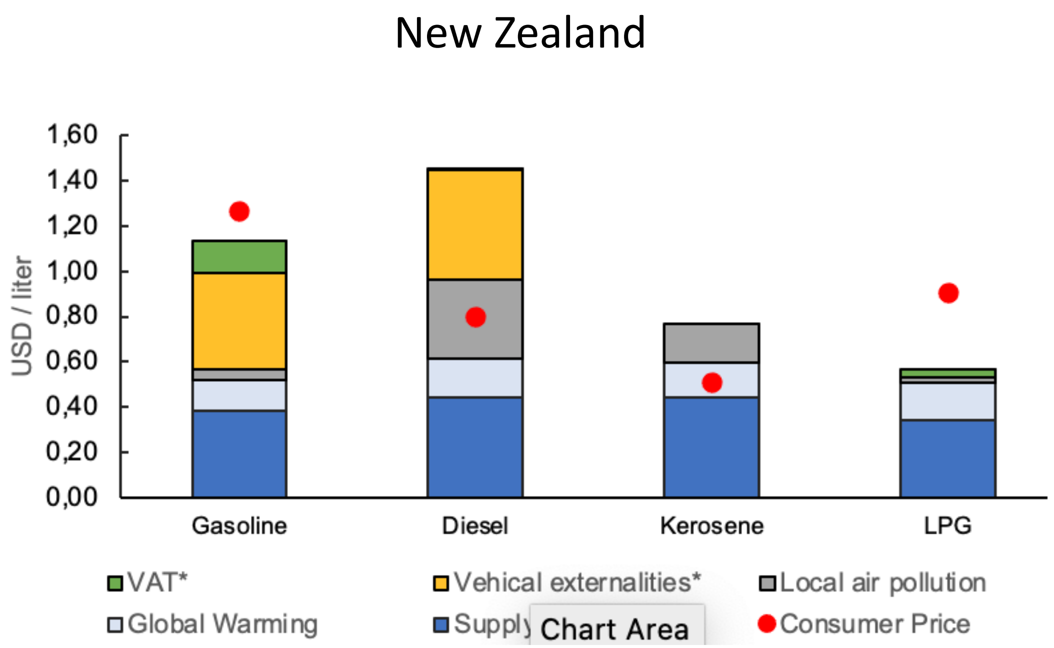
The IMF's estimates of "explicit" and "implicit" fossil fuel subsidies



- Changed from "pre-tax" and "post-tax" to "explicit" and "implicit" in 2021.
- IMF looks exclusively at consumption-related externalities.
- Growth in externalities heavily influenced by population and GDP growth.
- Range of uncertainty around the externality estimates are greater than the "explicit" subsidies.

Liquid fuel prices and externalities in the USA and NZ, 2020





Vehicle externalities (traffic congestion, road accidents, road wear & tear) accounted for the bulk of externalities not reflected in the price of gasoline in the USA and diesel in NZ in 2020:

— **USA:** 83% (USD 180 bln) of the "implicit subsidies" for gasoline; 48% (USD 82 bln) for diesel.

— NZ: 73% (USD 1.77 bln) of the "implicit subsidies" for diesel

Take-aways

- The WTO's ASCM Article 1 definition of a "subsidy" does NOT include the value of non-internalized externalities.
- Nor are they included in the OECD's, IEA's, UNEP's (SDG Indicator 12.c.1 indicator), nor the World Bank's country reports.
- The IMF's "implicit subsidy" estimates do NOT show the environmental harm caused by the "explicit" subsidies. Rather, they quantify the non-internalized externalities generated by fossil fuel consumption.
- It is therefore tautological to refer to the IMF numbers as showing the environmental *effects* of fossil fuel subsidies.

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Thank You!

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