



Subsidies to Non-Renewable Energy Sources

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Non-renewable energy sources



peat



lignite



coal



petroleum



natural gas



uranium

Why subsidies to energy are of international interest

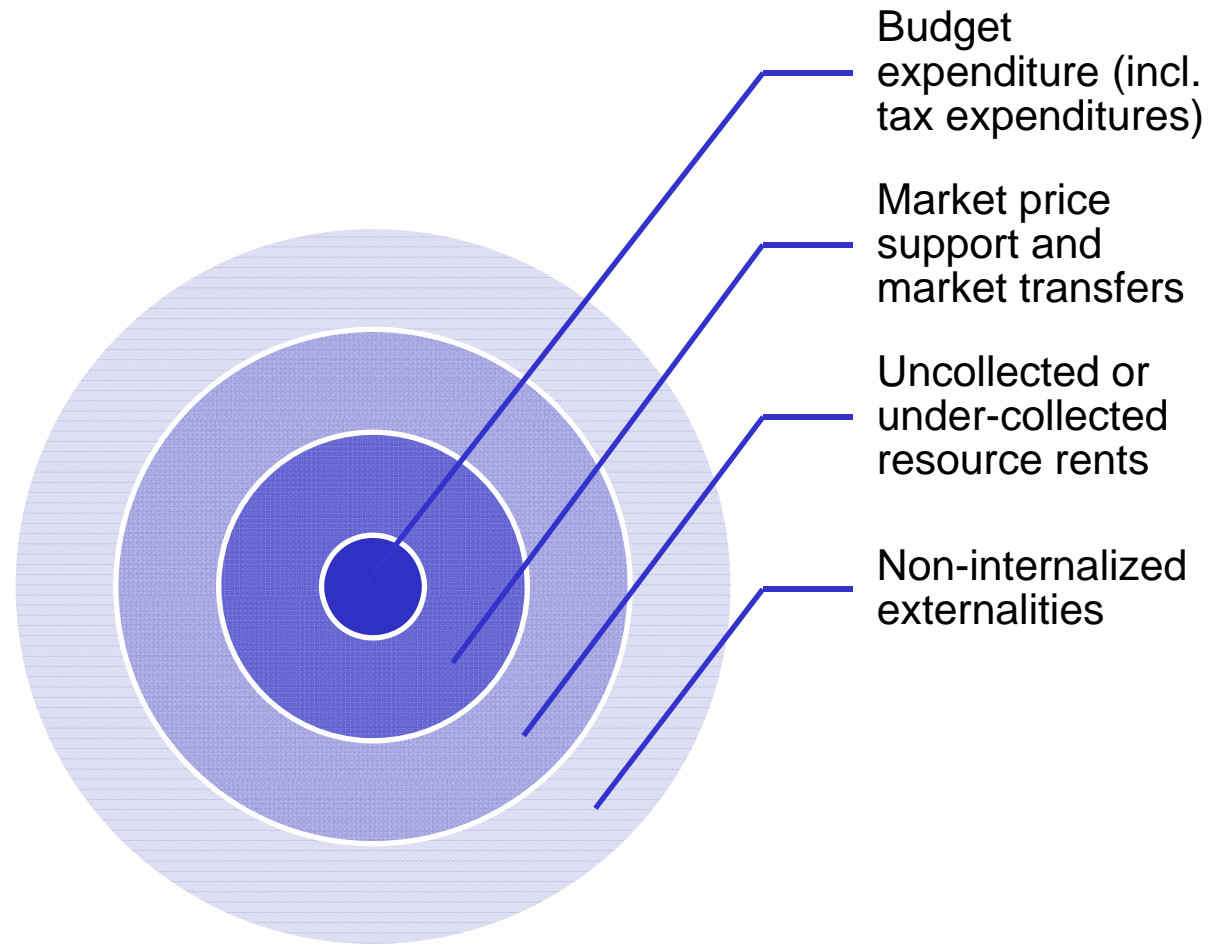
- Subsidies affect prices, and thus production and consumption of energy goods — not just like goods but others competing for heat, transport and electricity markets.
- Subsidized consumption isolating a number of markets from market signals, thus contributing to global price volatility.
- Subsidized 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.

Excerpt from G-20 Leaders' Communique

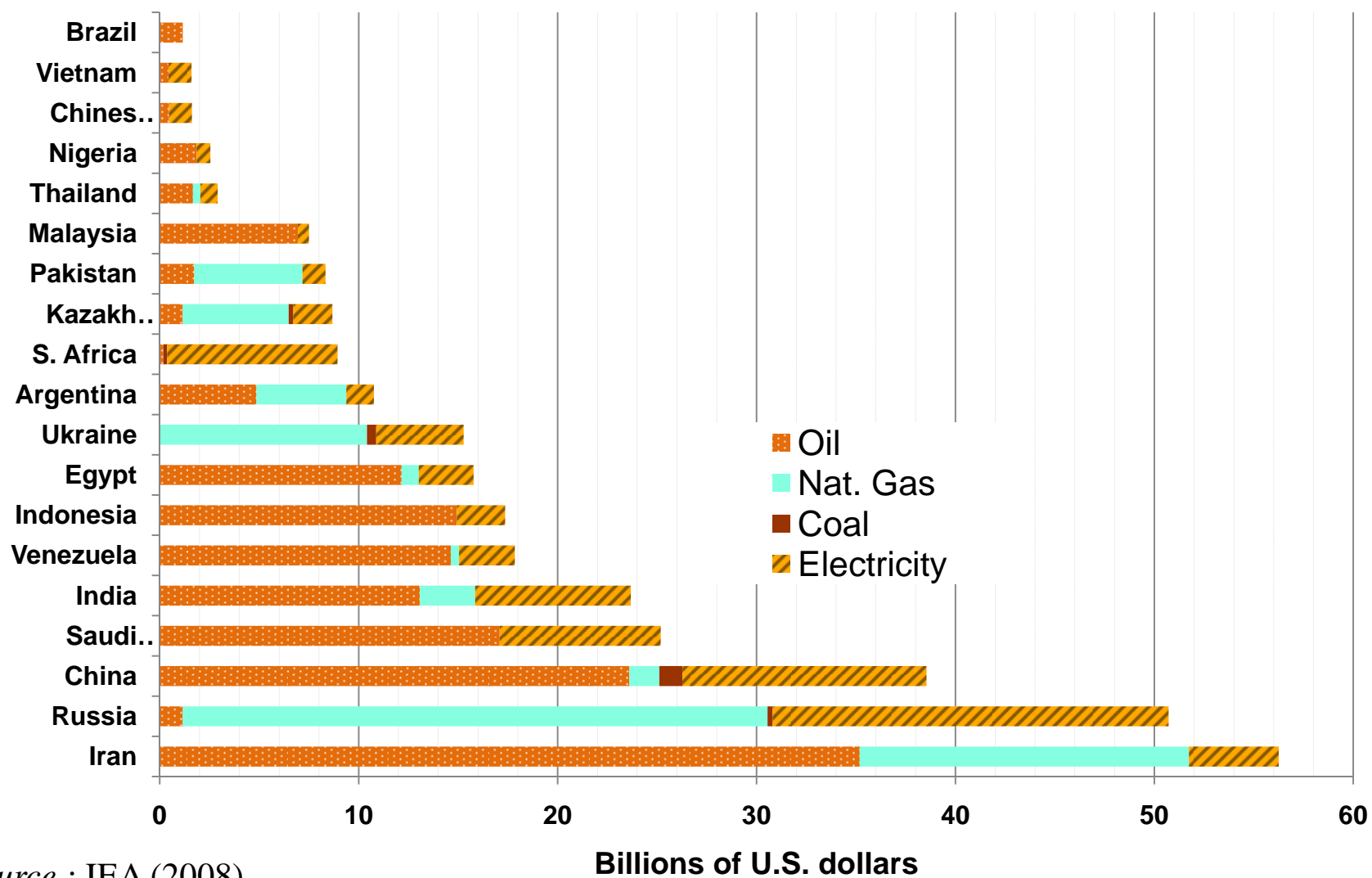
“... The Organization for Economic Cooperation and Development (OECD) and the International Energy Agency have found that eliminating fossil fuel subsidies by 2020 would reduce global greenhouse gas emissions in 2050 by ten percent. ... Building on these efforts and recognizing the challenges of populations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

How broad a definition?



Market transfers to fossil fuels and electricity, 2007



Source : IEA (2008).

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	Light 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	Light Green	Light Green	Light Green	Light Green

Guestimates of order of magnitudes

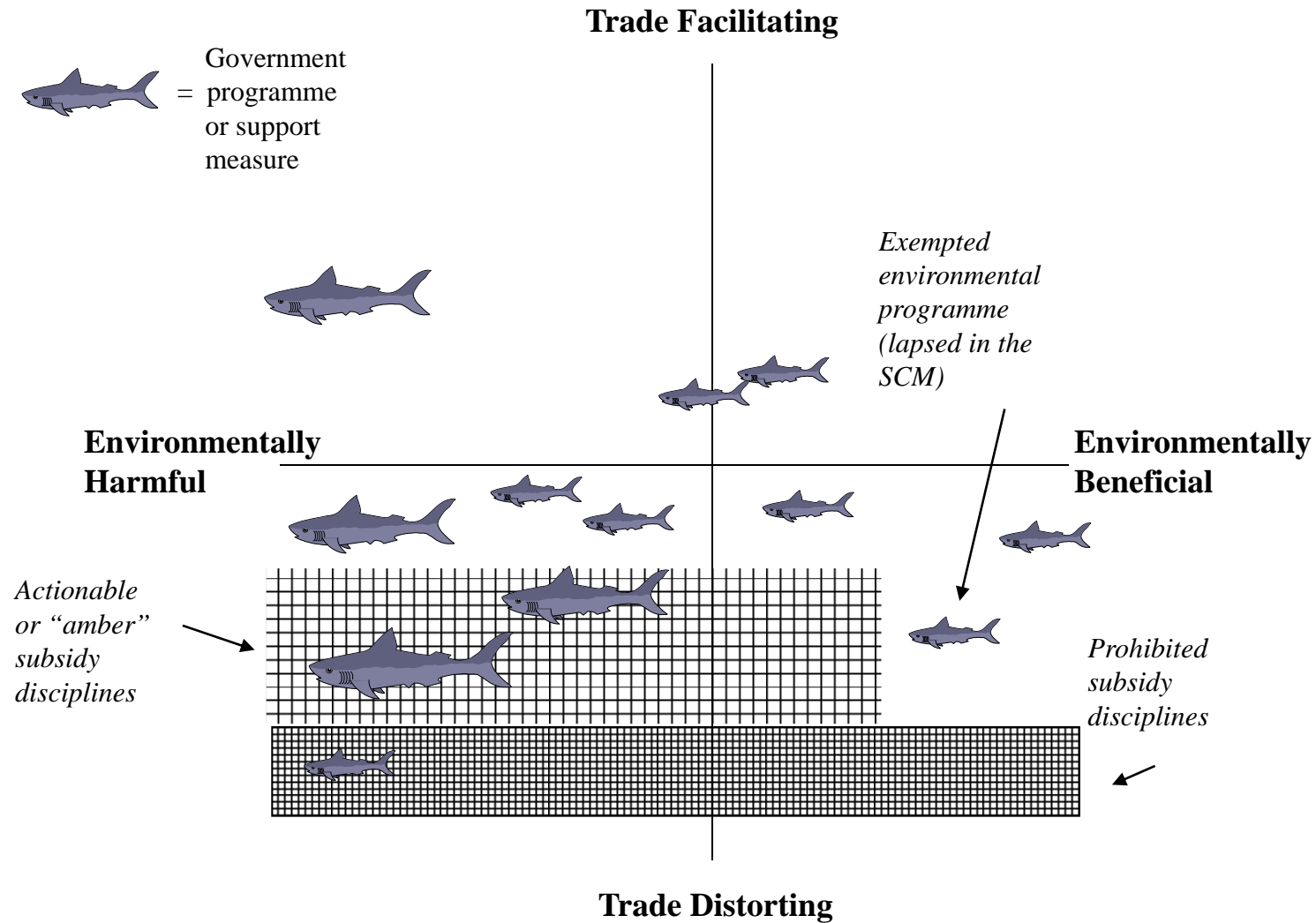
Type of subsidy	OECD Countries		Non-OECD Countries	
	Incidence	\$10 ⁹ /yr	Incidence	\$10 ⁹ /yr
<i>Production</i>				
MPS	Uncommon easy	x0	Common moderate	X0
Investment	Common moderate	x0	Unknown difficult	x0
R&D	Common easy	x0	Common moderate	x0
<i>Consumption</i>				
Market	Uncommon easy	x0	Common easy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

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”?



Sectoral support seen from both the environmental and trade perspectives



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