Technical expert group on fossil fuel subsidy indicator for SDG 12.C

Second consultation meeting – 29 September 2017

Summary of discussions

In the context of monitoring progress towards the Sustainable Development Goals (SDGs), UN Environment is the custodian of several indicators, including for SDG 12.C on fossil fuel subsidies. In this role, UN Environment is responsible for leading the methodological development of the indicator and for compiling and reporting data on it for the Secretary General's progress report on the SDGs. To support the development of a methodology to measure fossil fuel subsidies, UN Environment has established a technical expert group of several governments and organizations.

The group met for the second time on 29 September 2017, at an event co-sponsored by the Italian G7 Presidency in Rome, Italy.[1] Since the previous meeting, UN Environment had commissioned a methodological options paper, which is being developed by the Global Subsidies Initiative (GSI) and the Organisation for Economic Co-operation and Development (OECD). This meeting provided an opportunity for a sub-group of experts to consider and discuss some of the key issues relating to the measurement of fossil fuel subsidies. The feedback from the meeting will inform the development and revision of the methodology paper, which will be circulated and presented to the wider group of experts in the coming months.

This note provides a brief summary of the main issues discussed at the second meeting. It does not aim to reproduce in detail all discussions at the meeting but rather to capture the most salient points raised and implications for the development of a methodology to measure and aggregate fossil fuel subsidies.

Summary of decisions and next steps

- While there was general agreement with the methods and way forward proposed in the presentation by the consultants,[2] the Expert Group felt that there is a need to provide further guidance in the options paper, including specific proposals for group feedback.
- Different countries may wish to include more or less within the scope of measuring fossil fuel subsidies. However, at the global level, monitoring should take into account what can feasibly be measured by most (or many) countries, items which can be standardized to some extent for international comparability, and experiences to date.
- Global data collection on fossil fuel subsidies is not to yield a single total number only as this will not be useful for global analysis. The aim of global data collection should be to provide relevant, standardized data while minimizing the response burden on countries to submit data.

[1] For a summary of discussions from the first meeting of the technical expert group on 29 June 2017, see https://drive.google.com/open?id=0BxUOZ2JdlS6MTkZSYjJoYkQ0RWc

[2] The OPEC Secretariat expressed reservation on a proposed method to estimate consumer price support.

- There was no decision made on many specific methodological issues. There is a need to continue the consultation with this expert group, and with other groups more broadly, on these technical issues.

Introduction

Opening remarks and the Italian experience

Aldo Ravazzi Douvan (Italian Ministry of the Environment) started the session by delivering opening remarks to the Expert Group.[3] He began by focusing on recent efforts made by G7 and G20 processes to better align fiscal systems with environmental goals, as well as work undertaken by the OECD on fiscal incentives and subsidies. Mr Douvan then enumerated the various meetings and events convened by the Italian G7 Presidency, as well as key themes covered pertaining to climate change, resource efficiency, environmental fiscal reform, and several others. He then turned to work undertaken in Italy to catalogue environmentally harmful and friendly subsidies, including how they structured the definitions of harmful and friendly, and how subsidies were classified and estimated. Mr Douvan finished by providing an overview of the results and suggesting areas to further work.

UN Environment's work and an update on the SDGs reporting framework and approval process

Joy Kim (UN Environment) then made a brief presentation overviewing the SDGs, targets, and indicators for which UN Environment is custodian. She presented in detail target 12.C and indicator 12.C.1, and pointed to the fact that it is essential that the methodology developed meets the needs of countries across the world. Several international institutions have made great efforts to quantify regional or global fossil fuel subsidies, including the OECD, the International Energy Agency (IEA), and the International Monetary Fund (IMF). Looking at production and consumption subsidies, most estimates over the past several years fall into the US$ 320-550 billion per year range, though estimates taking externalities into consideration come in as high as US$ 5 trillion. Ms Kim then described the importance of the technical expert group, which UN Environment has formed, and walked participants through the process of developing a methodology for SDG12.C.1 by March 2018.

Jillian Campbell (UN Environment) then took the floor to provide experts with additional background about the process of monitoring and reporting the SDG indicators for which UN Environment is the custodian, and to speak on the progress made on monitoring and reporting of several of these indicators. She began by separating out national and global-level reporting, both of which will flow into the High-Level Political Forum, which is the central platform for following-up on and reviewing the 2030 Agenda for Sustainable Development, noting that national reporting can be more detailed than what will be reported globally. She then reviewed the historical developments of the SDG indicator framework, reminding experts that the General Assembly has already agreed on the framework and tasked the UN Statistical Commission with developing a monitoring framework, and

[3] All of the presentations made at the meeting are available for download at http://greenfiscalpolicy.org/policy-dialogue/technical-expert-group-on-fossil-fuel-subsidy-indicator-for-sdg12c/

that the Commission established the Inter-Agency Expert Group on the SDG Indicators (IAEG-SDG), a sub-group of 30 countries, to undertake this work.

Data collected from countries for the global database will be managed by the custodian agencies, and then harmonised and processed for international comparability. UN Environment is custodian of 26 indicators, including 12.C.1, for which it will support improved data use and analysis.[4] Ms Campbell described the process for adopting the indicator methodology, explaining that once it has been agreed upon by the Expert Group it will be submitted to the IAEG-SDG for their consideration, after which a reporting system will need to be established. As such, considerations of reporting scope, mechanisms, and coordination with other systems will arise.

Proposals on a methodology for the SDG12c indicator

Subsequent to the introductions, Peter Wooders (GSI) and Ronald Steenblik (OECD) walked the experts through some of the major technical issues to be discussed in the development of indicator 12.C.1. Mr Wooders began by demonstrating how relevant fossil fuel subsidies are for many of the SDGs, given that they touch on issues of poverty, health, and gender, not to mention energy and climate change. He reiterated the scope of subsidies, showing the evolution of estimates on consumer subsidies over time, and the breakdown of producer subsidies by energy type, while also emphasising that production subsidies still occur both in developed countries and developing countries. He then explained several international processes in support of fossil fuel subsidy reform, including the G20 and G7, as well as Asia-Pacific Economic Cooperation (APEC) and the Friends of Fossil Fuel Subsidy Reform. Several countries have also specifically highlighted fossil fuel subsidy reform in their Nationally Determined Contributions (NDCs) under the Paris Agreement.

Mr Wooders then unpacked indicator 12.C.1 ("Amount of fossil fuel subsidies per unit of GDP (production and consumption) and as a proportion of total national expenditure on fossil fuels") into its six constituent parts. Generally, the recommendations from the consultants included:

1. Select an internationally-used definition (e.g. OECD) of what constitutes a fossil fuel.
2. Select a widely-accepted definition of a subsidy (e.g. WTO); include transfers and revenues foregone as a minimum, and consider risk transfers to government and induced transfers to be comprehensive.
3. GDP will be based on data from the UN Statistical Commission.
4. As production subsidies are identified through an inventory of measures, agree on the system boundaries of production, including laws and regulations at the sub-national level.
5. Use consumption classes and consumption data from the IEA for consistency, and include non-energy consumption of fossil fuels (e.g. industrial feedstock); to estimate consumer price support, use the "price-gap method".
6. Assess which estimates of national expenditure on fossil fuels are available (not a commonly collected or reported metric), but use international data where possible for comparability.

Mr Steenblik then took the floor and went through in more detail the taxonomy of different kinds of subsidies, highlighting where each suffers from challenges in terms of scope and data. He then

[4] For more information, see http://uneplive.unep.org/projects

described some common methods for collecting this data, as well as some techniques for making estimates when the data are not available (e.g. for tax expenditures). The price gap method for estimating consumer price support and market price support to producers was explained. Particular focus was put on establishing a reference price, about which there are some divergences of views as to whether it should be an international price from a regional hub (e.g. Singapore, Rotterdam), or whether it can instead be a domestic producer price.

The presentation then turned to the current state of monitoring and data gaps, as Mr Steenblik showed which kinds of data are being collected by the OECD, IEA, and IMF, and which areas are not yet measured. Generally he suggested that there are reasonably good data on measuring consumer price support, covering most of the world, and that producer subsidies are currently available mainly for OECD countries and G20 countries. Internationally collected data on public finance are sparser, and would likely need to be supplemented with national data. Other challenges remain, as many countries do not report on all expenditures for individual programs in the budget year, on tax expenditures, nor on fuel prices.

Mr Wooders concluded the presentation by highlighting a case study undertaken in India, in which he reviewed the institutional set-up for monitoring SDG 12 and 12.C.1, covering the nodal ministry and the key players in data collection. He then turned to data availability, and the current monitoring of energy subsidies, including budgetary subsidies, implicit subsidies, and electricity.

The expert group had several points of feedback, with some highlighting that non-energy uses of fossil fuels should be included in consumption, and that induced transfers (i.e., those between consumers and producers or vice versa) generally make sense to include. Others cautioned against forgetting to consider the importance of non-energy uses for sustainable development and economic diversification, including among oil-producing nations. The issue of including externalities was discussed, however participants largely agreed to consider them separately, potentially as an optional sub-indicator. The challenge of quantifying the value of exemptions for international aviation and maritime fuel taxes was discussed, however no clear solution emerged. Countries would first have to agree on what would be an appropriate reference tax rate, as well as how such subsidies could be attributed globally. Meanwhile, on the issue of tax expenditures, countries noted that an increase in their value for a particular country can result from different policy changes – e.g., either an increase in the quantity of energy exempted from a tax, or by an increase in the overall tax rate.

Key issues for discussion

Mr Wooders and Mr Steenblik then laid out the four key issues, including preliminary recommendations on the approach, to be discussed by experts in the next session of the meeting, 1) consumer subsidies, 2) electricity from fossil fuels, 3) producer subsides, and 4) sub-indicators.

Consumer subsidies

This session addressed the issue of consumer subsidies, including how to measure consumer price support, which data could be used, and which reference price is appropriate. Mr Wooders suggested

to participants that direct transfers and tax expenditures be included in the estimate of total support to fossil fuels. The method for measuring consumer price support used by the IEA and IMF (for pre-tax subsidies), i.e. the so-called "price gap method" should be used, using national fuel price data to measure the price differential between domestic prices and international reference prices.

Experts considered a variety of issues related to measuring consumer price support, beginning with whether international spot market prices are most appropriate, given the presence of long-term contracts. Though there are different ways to determine market prices, the IEA has found that the spot market at the nearest regional hub is the simplest, tracks prices closely, and most closely represents the price that determines actual prices for petroleum products in jurisdictions where prices are set freely by market forces.

Other issues included that in some countries price gap method does not match compilations of fossil-fuel subsidies produced by national governments-level monitoring systems. The OECD said using the price-gap method requires care to avoid double counting certain subsidies that enable the under-pricing of fuels to consumers and that it is prepared to offer advice and guidance to countries as to which subsidies to include and which to exclude. The GSI likewise pointed out that fuel regulators typically have access to tables with information on fuel supply costs that could be used to determine what a proper domestic market price would be. While countries may decide to report other indicators, for international comparability a commonly agreed set of reference prices would be best to use when estimating consumer price support for the purposes of global monitoring. Some participants emphasised the importance of using data that are already available where possible, though governments may wish to produce more information for national monitoring and reporting purposes.

Support for estimating consumer price support using the price gap method was not unanimous, as some participants pointed to the language about inefficient fossil fuel subsidies in target 12.C, arguing that the existence of differentials between international reference prices and domestic prices does not offer a basis for determining whether a country's fuel-pricing policies are inefficient. UN Environment pointed out that the primary task of the expert group is to develop a methodology for measuring the value of fossil fuel subsidies described in indicator 12.C.1, and that the question of efficiency is a separate process, one to be undertaken by analysts in a subsequent stage in the context of relevant goals and targets.

The initial conclusions from this session were that:

- Most, though not all, experts agreed that measuring consumer price support using the price gap method should form an integral part of quantifying total government support to fossil fuels; however clear guidance is required on what information is needed to measure consumer price support by using this method.
- There is a need for guidance on how and which national data on other types of subsidies, particularly budgetary expenditures, can complement estimates of consumer price support calculated by the price-gap method. This could possibly be reported in a sub-indicator.
- Guidance should be developed as to how information on national prices should be collected.
- Though the focus is on 12.C.1, integrated analysis across indicators should be promoted for the SDGs.

Electricity from fossil fuels

Subsidies to electricity generated from fossil fuels are generally included in estimates of fossil fuel subsidies, e.g., by the IEA. They generally take the form of fuels sold to generators at below market rates, subsidized investments in particular technologies for generating electricity, subsidized investments in system infrastructure (e.g. distribution or transmission), or covering losses incurred on sales of electricity. Mr Wooders suggested that subsidies to electricity from fossil fuels be included in national inventories, but that guidance needs to be provided on the scope of such subsidies and how to measure them. The strongest case for inclusion related to subsidies to fossil-fuel inputs and fossil-fuel-based power plants; subsidies benefitting other costs of electricity generation, if included, would need to be apportioned according to the share of fossil fuels in the generation mix.

Several inter-related issues came out in the discussion of this series of recommendations, beginning with the challenge of establishing reference prices for untraded, low-grade fuel sources (e.g. lignite), though there may be opportunities to collect data from companies.

The issue of whether to treat electricity generation as simply another consuming sector arose, and alongside that whether or not it deserves special treatment in the indicator. Subsidies related to the use of vehicles powered by internal-combustion engines could also be considered, as such vehicles likewise combust fossil fuels. Some argued that the transport sector might be important to consider in the accounting. Also in question is how to ensure that system-level subsidies that trickle down to renewable energy sources are excluded in any estimate of fossil fuel subsidies.

The initial conclusions from the session were that:

- Electricity generators should be treated like other consumers, in the view of some countries.
- Whether and how to treat subsidies to capital for generating electric power, and the system for transmitting and distributing electricity, requires more thought and guidance, including how to separate subsidies flowing to renewable-energy plants from those benefitting fossil fuel sources.
- The question remains about whether to include subsidies to other energy-intensive sectors (e.g., transport), but more scoping and guidance is required.
- More information is needed on how to combine estimates of consumer price support with other subsidies provided at the national level.

Producer subsidies

The OECD has documented budgetary payments and tax expenditures benefitting fossil fuel production for its 35 member countries plus eight other countries (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa). Its approach follows standard practice, but the inclusion of some tax expenditures and royalty concessions in the accounting is not always endorsed by the affected industries. Further, some best practices have emerged from the G20 and APEC peer reviews, as well as independent studies. Mr Wooders proposed to experts that direct transfers and tax expenditures be included in estimates of producer subsidies as

a minimum, and that guidance be provided to countries on how to progressively develop their indicators, disaggregated by fuel.

Experts were enthusiastic about the specificity offered by itemising the subsidies associated with drawing up an inventory of individual producer-support programs, as this can serve as a starting point for national discussions about these items. This includes policies that support production via border protection (e.g., import tariffs or quantitative import controls), the subsidy-equivalent value of which (i.e., market price support) can be estimated by an approach analogous to that used to estimate price support on the consumer side. However, the key challenge cited was that building out an inventory of producer as well as consumer support policies can be labour intensive. While some participants suggested that a small team can accomplish quite a lot in a short time, others cited experiences with long durations, significant staffing requirements, and the need for good cooperation between administrations. Generally it was agreed that some technical assistance would be useful to build in-house capacity.

The initial conclusions from this session were that:

- Most participants agreed that measuring producer subsidies would be useful for policy makers.
- Many countries would need assistance to compile estimates of producer subsidies given the technical difficulty and resources required to estimate individual subsidy elements.

Sub-indicators

While there is a single headline indicator that will be recorded for the SDG global database, there is room for a few sub-indicators such as consumption and production subsidies to be reported as supplementary data that would be useful to statisticians and analysts. In addition, disaggregated data used to produce the indicator, additional reports and reviews, progress toward fossil fuel subsidy reform, and externalities such as greenhouse gas emissions from fossil fuels, tax rates and revenues, or details on the subsidies themselves, could be reported as supplementary data. Mr Wooders suggested that at a minimum countries report disaggregated data used to produce the indicator, but then opened the floor for discussion about which others would be of most value.

Some experts suggested collecting data on subsidies to other sectors, such as renewable energy, for comparison. UN Environment cautioned, however, that while linkages are important to establish (potentially work for the IAEG-SDG), it goes beyond the scope of the indicator and the mandate of the Expert Group. Others expressed interest in looking at externalities associated with the production and consumption of fossil fuels, as well as how reducing fossil fuel subsidies might affect the achievement of other targets, including those related to the transition to sustainable energy.

Participants cautioned against asking for too much from countries, as there are already many indicators and that each request requires resources to be committed at the national level. It was proposed to assess which data are already collected for other processes for global reporting. However, countries that wish to submit additional documentation should be provided with a means to do so, and the database can be designed in such a way to provide a space for that.

The initial conclusions from this session were that:

- Given interest in collecting more than the headline indicator, UN Environment can make a proposal on sub-indicators and circulate it to the group and then collect feedback.
- Metadata on what is included in the scope in the form of a text box or footnotes should be included for clarification.
- All such submissions would be solicited on a voluntary basis.

India case study

As part of the development of the options paper, a series of case studies to better understand countries' experiences of monitoring fossil fuel subsidies are being included, one of which is India. To provide an overview of the systems in place and progress made, Ms Avneet Kaur (Indian Ministry of Statistics and Programme Implementation) made a brief presentation to the Expert Group.

Ms Kaur began by overviewing India's development strategies and programmes, relating them to several targets within the SDG framework, addressing financial inclusion, sanitation, clean energy, and others. India is currently developing a monitoring framework for the SDGs which currently involves a list of about 310 indicators, which makes it the largest monitoring framework ever developed in the country. With respect to 12.C, Ms Kaur explained that the Ministry of Environment, Forest and Climate Change is the lead ministry responsible for monitoring 12.C. The national indicator framework currently foresees two indicators for 12.C: subsidy per unit of fossil fuel consumption and tax per unit of fossil fuel consumption. She likewise reviewed the several ministries and departments within the government from which the data for 12.C would be sourced, as well as which data are regularly collected.

Ms Kaur then reviewed recent policy reforms, including those concerning specific subsidies on kerosene, diesel, liquid petroleum gas (LGP), and petrol, as well as initiatives to promote energy access. She discussed also an increase in taxation for fossil fuels, both through taxes on retail prices and environmental taxes. Finally, she turned to key challenges, including coordination, monitoring, data collection, skills development, the alignment of SDGs with government programmes, and the need to modernize the statistical system.

Next steps

To help shape views, there is a need to provide further guidance in the options paper, including specific proposals for group feedback. The GSI and the OECD expect to produce a draft document to share within a month, integrating the feedback from this meeting. There remain two country case studies to conduct, and interested countries should contact UN Environment as soon as possible.

For the next round of consultations, UN Environment will maintain this participant group but also consult with other experts who can make constructive contributions. After receiving feedback on the draft options paper, there will subsequently be an opportunity to present the proposals to the group for further comments.

Milestones and timeline for development of methodology

- ✓ **29 June 2017**: First expert group consultation meeting (virtual meeting)
- ✓ **29 September 2017**: Second expert group consultation meeting (Rome, Italy)
- ☐ **End October 2017**: First draft of methodology
- ☐ **November 2017:** Review of draft "Options Paper" by a select group of country experts and representatives from G20 and APEC peer review processes
- ☐ **December 2017**: Revised draft "Options Paper" circulated for review to the IAEG-SDG and a wider group of countries

March 2018: Final methodology published

- ☐ **April – September 2018:** Pilot data collection in select countries, and country case studies
- ☐ **TBD 2018:** First meeting of expanded expert group, including partners for data collection

2020-2030: Data collection for all UN member countries