Executive summary

The combustion of fossil fuels is a leading contributor to climate change, and many countries have already taken steps to reduce their emissions of CO_2 and other pollutants. Some policies remain, however, that encourage more production and use of fossil fuels than would otherwise be the case. In so doing, these policies increase emissions and make mitigation more costly than necessary. Fossil-fuel subsidies are one such policy.

Not only do fossil-fuel subsidies undermine efforts to mitigate climate change, but they are also costly and distortive. By distorting costs and prices, fossil-fuel subsidies generate inefficiencies in the production and use of energy economy-wide. This can affect the allocation of resources across industries, including by directing long-term capital investment toward sectors that produce fossil fuels or use them intensively, at the expense of cleaner forms of energy and other economic activities more generally. In so doing, these subsidies accentuate the risk that long-lived capital assets end up locking in polluting technologies for years or decades. Fossil-fuel subsidies can also impose considerable strain on government budgets since they either increase public expenditure or reduce tax revenue, and this at a time when many countries are taking painful steps to reduce their public debt.

What really differentiate fossil-fuel subsidies from most other types of subsidies, however, are their environmental impacts. Besides greenhouse-gas emissions, the extraction of fossil fuels and their combustion in power plants, vehicles, and buildings, are directly responsible for the emission of numerous pollutants having local and often immediate impacts on the environment and on human health. This imposes additional costs on society where governments do not take appropriate action to ensure that polluters pay. To the extent they increase the production or consumption of fossil fuels, fossil-fuel subsidies make matters worse by indirectly rewarding polluting behaviour.

For all these reasons, a number of international initiatives over the past years have called for the reform of fossil-fuel subsidies. Some, like the commitments by APEC and the G-20, involve broad sets of countries while others remain more regional in scope, such as the efforts undertaken by the European Commission and certain regional development banks. All these initiatives proceed from the perspective that fossil-fuel subsidies are eminently bad and that reforming them requires some degree of international co-operation.

To help improve understanding of the range and magnitude of fossil-fuel subsidies, the OECD has identified, documented, and estimated almost 800 individual policies that support the production or consumption of fossil fuels in OECD countries and six large partner economies (Brazil, the People's Republic of China, India, Indonesia, the Russian Federation, and South Africa). In line with previous OECD work looking at support for the agriculture sector and the fisheries sector, the scope of the policies inventoried here is broad and differs from some conceptions of "subsidy". It includes both direct budgetary transfers and tax expenditures that in some way provide a benefit or preference for fossil-fuel production or consumption relative to alternatives.

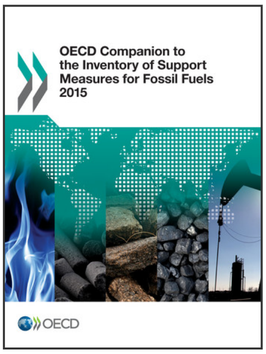
The database and the present report do not provide any analysis of the impacts of specific support measures, and so do not pass any judgement on which measures might be usefully kept in place, and which ones a country might wish to consider for possible reform or removal. Their purpose is rather to provide comprehensive information about policies that confer some level of support, as a starting point for subsequent analysis looking at the objectives of particular measures, their impacts (economically, environmentally and socially), and possible reforms and alternatives. First and foremost, this inventory seeks to promote the transparency of public policies and government budgets, and eventually a greater accountability for how public resources are used. It can also be understood as a contribution toward the broader issue of how to make fiscal policy and tax systems "greener" or more environmentally friendly.

Using data obtained from government sources, the report finds that the many measures the database contains had an overall value of USD 160-200 billion annually over the period 2010-14, with support for the consumption of petroleum products accounting for the bulk of that amount. This reflects in part the importance of petroleum products in countries' total primary energy supply, but also owes much to the fact that many large OECD economies do not extract fossil fuels on a significant scale. Producer support is unsurprisingly much more significant in relative terms when looking at countries that are relatively well endowed with crude oil, natural gas or coal (e.g. Canada, Germany, the Russian Federation or the United States).

Compared with the previous edition of the *Inventory* (OECD, 2013b), which covered OECD countries only, support now seems to follow a downward trend after having peaked twice in 2008 and 2011-12. Although the decline is more marked in OECD countries, a similar downward trend can also be observed in partner economies, driven in part by India's recent reform of its subsidies for the consumption of diesel fuel. A sizable portion of the decrease in support observed for OECD countries can be ascribed to Mexico, which eliminated the support it provided for the consumption of gasoline and diesel fuel through its floating excise tax.

The results reveal a certain degree of inertia, as policies supporting fossil fuels tend to stay in place for protracted periods of time. Most measures (about two-thirds of them) seem to have been introduced prior to 2000, at a time when climate change was not deemed a concern among policy makers and political and economic circumstances were by and large different. What this suggests is that there might be a need for countries to periodically reassess the relevance of some of their support measures as the context evolves.

Although progress has been notable, this edition of the *Inventory* shows that there remains plenty of room for reform. The time is also not one for complacency. Global greenhouse-gas emissions are still largely above the levels required for limiting average expected temperature increases. Recovery from the Great Recession of 2008-09 remains slow and difficult by historical standards. Fiscal positions continue posing a challenge to policy makers in many countries as they struggle to identify opportunities for cutting spending and raising more revenues, and this without adding to alarmingly high levels of unemployment. In this context, the reform of measures supporting fossil fuels appears more relevant than ever. Other better-targeted policy instruments likely exist that would offer suitable alternatives for meeting the policy objectives support measures for fossil fuels intended to reach in the first place.



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