



JOINT UNEP AND STATISTICS SWEDEN (SCB) EXPERT MEETING ON ENERGY SUBSIDIES

Geneva, 26 May 2008

Meeting Summary

In November 2007, UNEP and UNECE organised an expert meeting on energy subsidies to take stock of what had been done on this topic over the last decade. The meeting covered the problems of defining and categorising subsidies, as well as the potential implications of energy subsidies on climate change, energy security, and poverty and development issues.

These discussions revealed two critical bottlenecks among others: the lack of a commonly accepted subsidy definition and established global database. This led to close consultations between UNEP, Statistics Sweden (SCB) and other experts in order to initiate a process of developing the capacity to collect and analyse relevant statistics on global energy subsidies.

The reconvening of experts on 26 May 2008 was therefore intended to shed further light on the use of subsidy data for reform efforts in the future. UNEP and SCB organised a workshop of 13 external experts from various sectors, as well as six representatives from UNEP and SCB.

1. There remain loose ends on the issue of subsidy definitions

A consensus single definition of subsidy is not necessarily required

The conventional wisdom on energy subsidies has been that a reliable working definition of the term is needed before reform efforts can go forward. The logic behind this idea is that subsidy data will not be comparable across sectors and regions if different figures capture different things. Proponents of a single definition have argued that a clear definition, even if not agreed upon by all parties, will help greatly with data gathering and analysis, as well as give subsidy studies credibility in the eyes of policy makers.

However, there is now disagreement as to the appropriateness of a single subsidy definition. Rather, definitions may depend on the particular organisation, or the question that is being answered. Instead of binding all studies by a universal and inflexible definition, a hierarchy of definitions could be employed with the recognition that not all analysts will use the same exact ones. This would also allow for a more nuanced approach that can account for various localised biases.

One possibility would be to adopt a system of definitions that range from narrow to broad, where each study could adopt the type of definition which is best suited for their purposes. In order to identify the items that need to be covered in the analyses, a measurement framework would be essential and should preferably be agreed on internationally and be traceable to state budgets as well as to the industrial sectors involved. Also, the statistical agencies must be using the broadest definitions. Otherwise, data will simply not exist to use the broader definitions of subsidy when it is needed. This will allow analysts to be able to "drill down" from aggregate numbers to see what sub-programs have been included in a subsidy estimation, which allows for different studies across nations to be compared, regardless of which definition is chosen.

A first step towards data reporting could be to test some measurement definitions with international cooperation

The System of Economic and Environmental Accounting (SEEA) model could be a potential tool for worldwide data reporting in the future. At the meeting, SCB presented some work in progress that is intended

to be discussed with the London Group in September 2008. The suggested framework, which extends the national accounts definition but still uses the accounting system as a source of data, classifies subsidies as either “environmentally motivated” or “potentially damaging.” Determination of legislative intent has been accomplished through analysis of the budget lines. It was decided in the meeting that subsidy measurement and subsidy analysis should be maintained as two distinct stages. Furthermore, some participants voiced the concern that labeling a subsidy’s intent could be misleading and that revealing the intent of a subsidy is less useful anyway than discovering its impact. Nevertheless, developing objective standards for labeling subsidies as they relate to the environment will be part of the work on the SEEA standard.

It is hoped that through the community of people working on subsidy classification, a consensus on how to classify most subsidy elements will emerge over time. However, unless one can actually see more granularity on the programs behind the estimates, the user community won't have enough information to reach that consensus.

Should externalities be included in a subsidy definition?

Environmental externalities can be very large, but are difficult to quantify reliably. There exists disagreement as to whether or not their effects should be included in subsidy estimations. On the one hand, progress has been made on estimation techniques, and including externalities as subsidies is a need that has been explicitly formulated by policy makers. However, the fact that they are so difficult to quantify could potentially affect the accuracy of subsidy calculations, rendering them unreliable and easily dismissed. The meeting consensus was that externalities should be treated as a separate component of subsidy definitions and measurement, but still considered in subsidy analysis. Keeping externalities separate (from fiscal subsidies) allows:

- a user community to narrow the range of uncertainty on externality values over time; and
- analysts to present a holistic picture of societal investment in a particular good or service (private cost, public subsidy, plus externality), but to do so in a visible way so fiscal subsidies are still easily separable.

However, care should be taken to avoid double counting the effects of externalities, as conventional energy plants (like thermal power plants or oil refineries) do often include some form of environmental costs in their financial planning. For example, some Indian energy plants already consider rehabilitation costs of displaced people from plant locations in their financial planning.

2. There are real challenges associated with data collection

Subsidy data collection must be more comprehensive and consistent. Current practices produce highly disparate estimates, which complicate policy reform. A lack of comprehensiveness could lead to new distortions where governments shift subsidies towards areas not captured as well by the data. In addition, a few other specific data concerns were voiced.

National accounting systems: on-budget vs. off-budget subsidies

Some government funds are disbursed through a transparent budget process, which facilitates the identification of *on-budget* subsidies. But other funds are channelled outside the formal budgeting procedure, making them difficult to detect. Past experience shows that subsidies often migrate to less visible transfer methods as transparency of on-budget support grows. Therefore, subsidy data must include off-budget portions in order to be comprehensive and users of SEEA data in the future must make strong efforts to accommodate for the critical distinction between on- and off-budget subsidies. Moreover, it is important to push for the capability in energy subsidy accounting and reporting systems for capturing such dynamic movements of subsidy sources and targets.

Resources required for data collection

Due to the uncertainties associated with collecting data, the resources required to collect sufficient subsidy data cannot be determined. SCB’s proposals depend on the collection of already existing data and survey results. However, to the extent that new statistics are needed for the purpose of energy subsidy reform, significantly more time and money may be required. This poses particular problems to developing countries that lack the financial as well as human resources for getting involved in the process.

However, it should be noted that the resources required for the preparation of subsidy statistics could result in tremendous benefits across many sectors of the economy, such as overall government efficiency, accountability, and transparency. Thus the key barrier to further investment in data collection is likely to be political more than financial.

3. There will be difficulties repealing subsidies that are deemed counterproductive

Transparency will be needed throughout the process

Much of the subsidy reform process is complicated by inconsistent or incorrect information. The need for transparency is apparent in the following applications:

- Governments first must acknowledge that energy subsidies exist within their borders, as some countries are unwilling to do so. Forcing this to occur where the will does not exist could be difficult to accomplish.
- Governments need to keep good information on the magnitude of their energy subsidies, including transaction costs, which can run up to 20-30% of total subsidy size and are typically unaccounted for.
- State tax expenditure data must be publicly available, not just in aggregate but also at the industrial sector level. The policies that lead to tax breaks should be vetted and open for reform.
- Data collection strategies should be harmonized across nations, and statistical outputs made understandable to broader user groups.
- Developing country governments need additional resources to strengthen their statistical capacity for proper and timely reporting of energy subsidies.
- Governments must raise public awareness about the need for reforming energy subsidies, as the transition will be difficult for particular sectors and could be poorly understood by the public.

Implications on the poor must be studied

Due in part to differing price elasticities of consumption, subsidy removal has different impacts in various regions and among various classes of people of the world. More needs to be done to understand the ways in which subsidies and their potential reform will impact various socio-economic groups. Indeed, energy subsidies seem to improve energy supply and the standard of living of the poor in some cases, but may not help them as much as was previously assumed, and especially not in the long run. In addition, there may be ways to retain these benefits without also providing large subsidies to groups that don't need them. The degree to which a major reform of energy subsidies will disproportionately and negatively impact the world's poor requires further study.

4. Moving forward with subsidy reform

Options for hosting energy subsidy data

A primary objective of this meeting was to discuss options for potential partners in collecting and hosting data. Of particular concern is the appropriateness of one agency potentially hosting all subsidy data. One agency hosting the data could:

- easily keep track of progress and identify what data is needed at all times from various parties;
- oversee consistent data formatting to maximize the usefulness of collected data; and
- make assumptions for countries that do not submit data while double-checking the accuracy of each nation's data.

However, one central organizing agency:

- is less qualified to report national data than each country itself that is a specialist in their own data;
- may not be cutting edge in tracking and measuring all different types of subsidies; and
- risks hampering the whole initiative should political issues cause delays in a particular country.

It might therefore be better to choose a decentralised solution and let those nations who are eager to lead the way go forward, rather than forcing everyone to move at the same pace as the slowest party. An additional advantage of this approach is that as the data from early-mover countries begins to positively influence domestic politics, it can generate increased pressure from the electorates in the lagging nations.

Seeking government backing has plusses and minuses

Proponents of government-backed data point out that energy subsidisation is a topic of national strategic importance, and therefore government support and validation is critical to get data that is complete and useful. However, due to the strategic issues, nations may hesitate to release complete statistics in a timely manner. This could cause undue delay to the initiative. NGOs or other private data collectors could have more success in accessing subsidy data quickly, but may not have access to the same breadth of data as do national governments.

The next steps

SCB will seek comments on the statistical framework it is developing for environmentally related subsidies. In addition, it will bring the key points from this meeting to the London Group and the UN Committee on Environmental and Economic Accounting (UNCEEA), which are overseeing the development of the framework. Based on the discussions at this meeting, UNEP will work with partners to commission a study on definitional issues related to energy subsidies. It will also explore opportunities to conduct pilot projects at the country level, linking the reform of energy subsidies to the issues of climate change, sustainable consumption and production, clean technology, energy efficiency, and renewable energy.

Presentations and other relevant documents associated with the meeting are available at:
http://www.unep.ch/etb/events/2008_EnergySubsidiesMtg26May.php