Subsidies to energy: What should we be counting?

Ronald Steenblik — Senior Fellow

International Institute for Sustainable Development

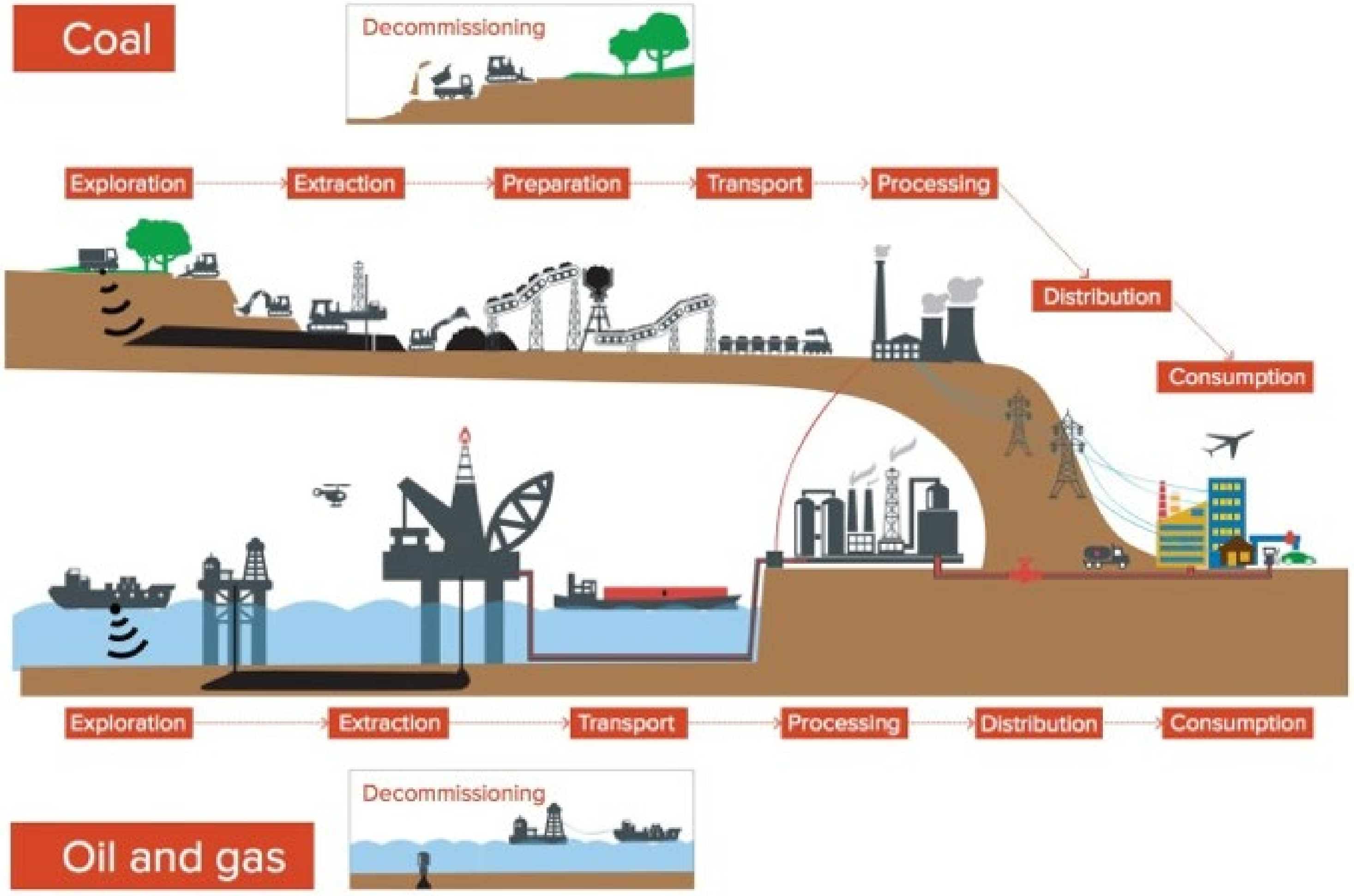
23 September 2021

IISD
International Institute for Sustainable Development

Basic questions when identifying and quantifying subsidies

- **Parts of value chain to be covered** — production, transport, transformation, consumption, and boundaries for each one.
- **Unit of analysis** — subsidies in a country, or to specific firms?
- **Geographic scope** — national or also sub-national?
- **Baseline** — e.g., varying or fixed market prices?
- **Transfer mechanisms** to be considered
- **Incidence** — i.e., what cost and revenue streams will be examined?
- **Data sources** — government (and whether public) vs. proprietary

Value chain of production and consumption of fossil fuels



Source: Whitley, S. and van der Burg, L., 2015. *Fossil Fuel Subsidy Reform: From Rhetoric to Reality*. New Climate Economy, London and Washington, DC. Available at http://newclimateeconomy.report/misc/working-papers.

OECD matrix of support measures, with examples

		Statutory or formal incidence (to whom and what a transfer is first given)							
		A. Output returns	B. Enterprise income	C. Cost of intermediate inputs	Costs of value-adding factors				H. Unit cost of consumption
					D. Labor	**E. Land and natural resources**	**F. Capital**	**G. Knowledge**	
Transfer mechanism (how transfer is provided)	**1. Direct transfer of funds**	Output bounty or deficiency payment	Operating grant	Input-price subsidy	Wage subsidy	Capital grant linked to the acquisition of land	Capital grant linked to the acquisition of asset, including foreign ones	Government R&D	Unit subsidy
	2. 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
	3. Other government revenue foregone		Waiving of Administrative fees or charges	Under-pricing of a government good or service		Under-pricing of access to government land or natural resources	Debt forgiveness or restructuring	Government transfer of intellectual property rights	Under-pricing of access to a natural resource harvested by final consumer
	4. Transfer of risk to government	Government buffer stock	Third-party liability limit for producers		Assumption of occupational health and accident liabilities	Credit guarantee linked to acquisition of land	Loan guarantee; nonmarket-based debt-equity swap and equity injection		Price-triggered subsidy
	5. Induced transfers	Import tariff or export subsidy; local-content requirements; dscriminatory government	Monopoly concession	Monopsony concession; export restriction; dual pricing	Wage control	Land-use control	Credit control (sector-specific)	Deviations from standard IPR rules	Regulated price; cross subsidy

Source: OECD (2021), "Measuring Distortions in International Markets: Below-Market Finance", OECD Trade Policy Paper No. 247. Paris.