

# Session 7 - Environmental taxes and subsidies, including harmful subsidies: The Case of Fossil Fuel Subsidies

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UNEP Industry and Economy Division – Economic and Trade Policy Unit  
8th Joint OECD/UNECE Seminar on the Implementation of the System of Environmental-Economic Accounting  
(SEEA)

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# Outline

## Key questions

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- SDG 12.c.1: Measuring FFS in the context of the SDG framework
- SDG 12.c.1 : current state of reporting
- Linking SEEA and SDG 12.c.1

# SDG target 12.c: on the rationalization of inefficient fossil-fuel subsidies

**Goal:** By 2030 rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption by removing market distortions, in accordance with national circumstances.

**Indicator 12.c** rationalize inefficient fossil fuel subsidies that encourage wasteful consumption by removing market distortions, in accordance with national circumstances, including by restructuring taxation and phasing out those harmful subsidies, where they exist, to reflect their environmental impacts [...]

**Indicator 12.c.1: amount of fossil-fuel subsidies  
(production and consumption) per unit of GDP**

# The importance of measuring FF subsidies

Necessary for tracking and reforming

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- Allows for tracking of national and global trends
- Serves as an important guide for policy-making and for the design of reforms supportive of a just transition
  - To inform the development of a comprehensive energy sector reform plan and based on an analysis of the impact of reforms;
  - Need to ensure that poor households and energy-dependent sectors that are particularly vulnerable to price increases obtain or retain access to energy. Successful reforms require careful analysis and adapted mitigation measures

# Estimates of fossil fuel subsidies

A topic increasingly scrutinized

## Fossil Fuels Consumption Subsidies 2022



### ITALY'S EFFORT TO PHASE OUT AND RATIONALISE ITS FOSSIL-FUEL SUBSIDIES

A REPORT ON THE G20 PEER-REVIEW OF INEFFICIENT FOSSIL-FUEL SUBSIDIES THAT ENCOURAGE WASTEFUL CONSUMPTION IN ITALY



Brussels, 15.11.2022  
COM(2022) 642 final

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAM  
THE COUNCIL

WP/21/236

### IMF Working Paper

Still Not Getting Energy Prices Right:  
A Global and Country Update of Fossil Fuel Subsidies

## OECD Inventory of Support Measures for Fossil Fuels

DATABASE BROCHURE

### Fossil Fuel Subsidies 2020



Fossil



# Different methodologies for measuring FFS

Estimates of the global value of fossil fuel subsidies vary according to the definition and approach used

## ➤ Price gap approach:

- Quantifies the difference between the price set by government or fuel seller and the price in a competitive market
- Used to measure Induced Transfers
- Method used by IEA and IMF

## ➤ Inventory approach:

- Lists and quantifying individual support measures in an inventory
- Used for Direct Transfers, Tax expenditure, transfers of risks
- Method used by OECD

## ➤ Consumer subsidies

- lower the price of fossil fuels for the private sector, the public sector or households
- IEA produces an annual global estimate

## ➤ Producer subsidies:

- concentrated in countries that are major producers
- generally identified by an inventory approach
- Currently no global estimates of producer subsidies
- OECD inventory identifies subsidies for 82 countries

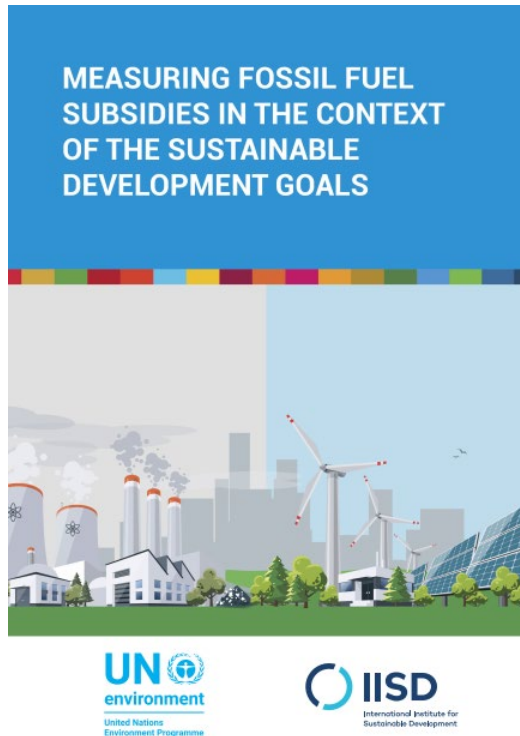
## ➤ Use and type of fuel covered

- Includes electricity? Includes subsidies to FF industries?

# Measuring FFS in the context of the SDGs

Methodology developed for indicator 12.c.1 and published in 2019

First internationally agreed-upon methodology, guidance for countries



- Covers both producer and consumer subsidies
- Uses both price-gap and inventory methods (depending on the type of subsidy)
- Uses IEA definition for fossil fuels and CPC Rev 2.0 for classification of products
- Inclusion of secondary commodities derived from fossil fuels, in particular electricity & heat
- Includes non-energy uses, but makes the monitoring optional

# Measuring FFS in the context of the SDGs

What is fossil fuel subsidy?

## **Fossil Fuel definition from the IEA Statistical Manual:**

“Fossil fuels are taken from natural resources which were formed from biomass in the geological past. By extension, the term fossil is also applied to any secondary fuel manufactured from a fossil fuel.” (IEA, 2005)

## **Subsidy aligns with WTO defined in the Agreement on Subsidies and Countervailing Measures (ASCM):**

(1) Any “financial contribution” by a government which provides a benefit (includes direct transfer of funds (budget allocation, grant, loan, infusion of equity) but also potential transfer of funds or liabilities (such as a loan guarantee), and (2) there is any form of income or price support whereby a benefit is conferred



# SDG 12.c.1 : what types of subsidies are reported

## Classification and reporting by subsidies

Based on the scope and definitions, and in order to measure fossil fuel subsidies at the national, regional and global level, three sub-indicators are recommended for reporting on this indicator

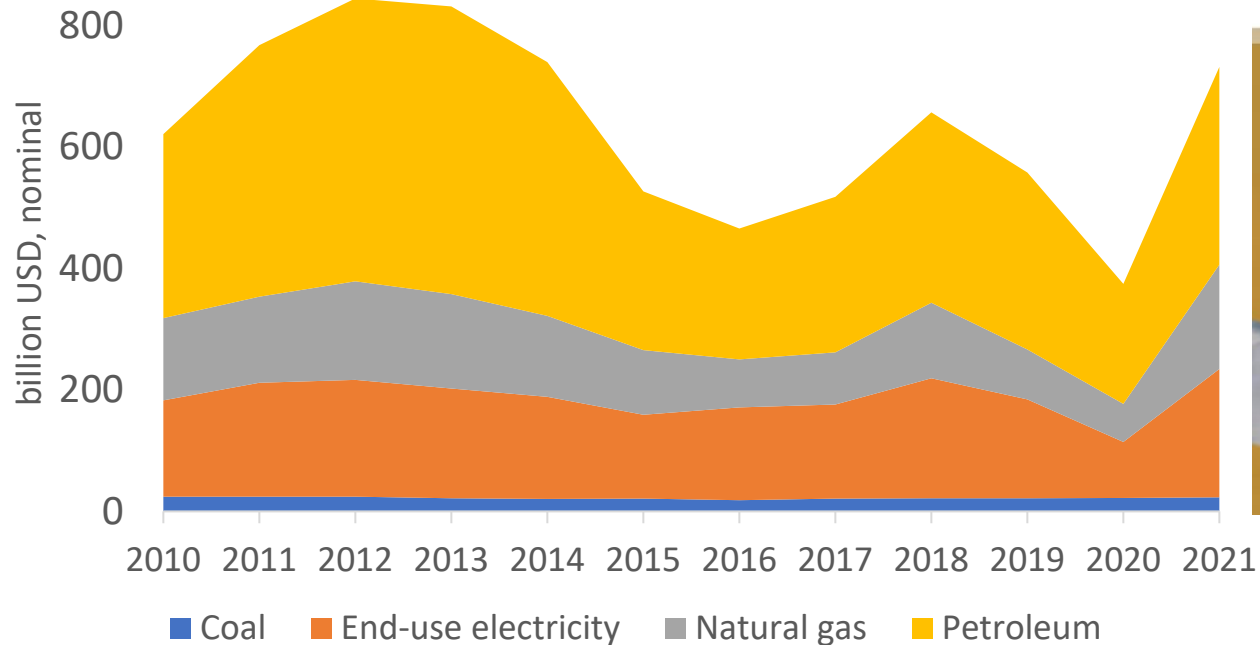
This categorization is in the reporting of SDG Indicator 12.c.1, in addition to types of fuel and the distinction between consumption and production.

1. Direct transfer of government funds
2. Induced transfers (or Price Support)
3. Tax expenditure, other revenue foregone, and under-pricing of goods and services
4. (Transfer of risk to government)

# Current state of reporting

Building a global database for FFS

Global estimates by fuel type



From: Fossil fuel subsidy tracker



SDG 12 HUB



# Linking SDG 12.c.1 and SEEA and other available data sources

## Building on existing datasets

- Methodology was built with national case studies to assess existing data availability as a basis for the SDG 12.c.1 monitoring
- Existing datasets (OECD inventory, IEA energy subsidies, Peer reviews, national-level assessments, etc.) provide a base to build on for many countries on direct transfers, tax expenditure and revenue foregone, and induced transfers
- SEEA accounts can provide inputs :
  - Case studies of Sweden and New Zealand identifying available data and data gaps from the SEEA: [24th London group meeting, Dublin, Ireland: Identifying fossil fuel subsidies in the SEEA for SDG reporting](#), SCB (2018)

Table 4.8  
Selected payments to and from government and similar transactions

		Payments received by				
		Government	Corporations	Households	NPISH <sup>a</sup>	Rest of the world
Payments made by	Government	Transfers between levels of government	Subsidies and investment grants	Current and capital transfers	Subsidies; current and capital transfers	Current and capital transfers
	Corporations	Taxes, fines, fees, charges and rent	Rent	Rent	Donations	Donations to NPISH in rest of the world
	Households	Taxes, fees, charges and fines			Donations	Donations
	NPISH <sup>a</sup>	Taxes	Current and capital transfers	Current and capital transfers		Current and capital transfers
	Rest of the world	Taxes and current transfers			Donations	

<sup>a</sup> Non-profit institutions serving households.

SEEA CF (2012), p.118

# Some resources

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- [Measuring Fossil Fuel Subsidies In The Context Of The Sustainable Development Goals \(2019\)](#)
- SDG 12 Hub: <https://sdg12hub.org/>
- [24th London group meeting, Dublin, Ireland: Identifying fossil fuel subsidies in the SEEA for SDG reporting, SCB \(2018\)](#)
- [Fossil Fuel Subsidy Tracker](#) (IISD and OECD)

# Thank you



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