

# ***FOSSIL FUEL SUBSIDIES: DETERMINING THEIR SIZE AND REMOVING REFORM OBSTACLES***

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## **Overview**

Phasing out fossil fuel subsidies (FFS) has been high on the international agenda since the G20 summit in 2009. The 2015 Paris Agreement explicitly aims at “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”. Yet, FFS seem to be a persistent phenomenon. The IEA (2017) estimated their global value in 2016 at around USD 260 billion, whereas a paper by IMF staff (Coady et al., 2015) even arrived at a figure of more than USD 4 trillion for 2013.

The proposed paper will discuss the various factors that can explain the widely diverging estimates, including among others the lack of a common definition of FFS, their scope, and divergent ways to measure their size. It will also address the issue what role such estimates play in the debate on reforms. Finally, it will identify a number of success factors that can be identified in cases of FFS reform around the world.

## **Methods**

Literature survey  
Case studies  
Data analysis / calculations

## **Results**

The analysis shows that the main factors behind the differences in FFS estimates are the inclusion or exclusion of non-internalised externalities and the choice of baselines (benchmarks) in fossil fuel tax schemes. Disagreement on the question whether or not a FFS exists is a more important obstacle to reform than the estimated size of the subsidy amounts, even though these estimates may differ widely. And successful FFS reform is to a large extent a matter of good timing, using windows of opportunity, and ensuring compensation for groups that will be hurt by the reform.

## **Conclusions**

The results point to the conclusion that from a policy making point of view there is no need for very sophisticated methods for estimating subsidies, although more transparency on what is behind the various figures remains desirable. More emphasis should be put on analyzing whether the (original) objectives of a FFS scheme are (still) relevant, and if so, if they can be achieved in a less market distortive way.

## **References**

Coady, D., I. Parry, L. Sears, and B. Shang (2015), How Large Are Global Energy Subsidies? IMF Working Paper WP/15/105. Washington DC: International Monetary Fund.

IEA (2017), information from website: <https://www.iea.org/statistics/resources/energysubsidies/> (accessed 22 December 2017).