



APEC Fossil Fuel Subsidy Reform Capacity-Building Workshop

SUMMARY REPORT

December 14-15, 2015

Hawaii, United States

The United States hosted an APEC Fossil Fuel Subsidy Reform Capacity Building Workshop in Honolulu, Hawaii on the margins of the 50th APEC Energy Working Group meeting. The one and a half-day workshop, implemented with support from the US-APEC Technical Assistance to Advance Regional Integration activity (US-ATAARI), provided a framework for discussion and information sharing on challenges and best practices in designing and implementing effective and sustainable fossil fuel subsidy reforms. Speakers shared lessons learned and best strategies from APEC economies (Thailand, Indonesia, Mexico, U.S., Peru, New Zealand, the Philippines and Viet Nam), the G20 (U.S. and China) and other case studies to help build capacity and provide policy options for subsidy reform. Participants included experts from APEC energy and finance ministries, G20 representatives, and experts from relevant international bodies and nongovernmental organizations that provide technical and analytical support for subsidy reform (IEA, IMF, OECD, World Bank, IISD/GSI). Topics included domestic reforms, APEC and G20 peer reviews, redirecting fiscal savings to cleaner and renewable energy alternatives or more effective social programs, pricing mechanisms, mitigating the impacts of reforms, and communication strategies. Participants also discussed energy access, including gender implications for reform. The workshop agenda and key findings are summarized in the appendices attached.¹

Background

Since 2009, APEC and G20 Leaders have committed to rationalize and phase out inefficient fossil-fuel subsidies that encourage wasteful consumption, while recognizing the importance of providing those in need with essential energy services. Additional leaders recently voiced the priority of fossil fuel subsidy reform at the December 2015 climate talks in Paris. Many leaders have recognized that such subsidies also hinder progress towards reducing greenhouse gas emissions, are a fiscal drain on government budgets, and often fail to provide assistance to the poorer, vulnerable populations they are intended to help. The IEA estimates that global fossil fuel subsidies have reached roughly US \$500 billion per year and can impede investments in clean and renewable energy development that are vital to sustainable growth. The IEA has also noted that global fossil fuel subsidies are nearly four times the subsidies for renewable energy. When more broadly defined to include the environmental costs of energy consumption such as

¹ All presentations will be posted on the APEC and Energy Working Group (www.ewg.apec.org) websites.

global warming, local pollution, traffic congestion and accidents, the IMF estimates that global energy subsidies are substantially higher, at around 5.3 trillion (or 6.5 percent of global GDP). The APEC Energy Working Group has initiated fossil fuel subsidy peer reviews and capacity building activities to support the APEC Leaders' mandate. The G20 has also recently initiated fossil fuel subsidy peer reviews. Capacity building activities, sharing of best strategies for reform and peer reviews will help governments achieve progress toward these energy and climate goals.

Common Challenges

Participants noted that many fossil fuel subsidies have become highly regressive and inefficient, often fail to meet their intended target, and send the wrong pricing signals for climate change, energy security, investments in infrastructure and clean energy and other unintended effects. One common challenge identified is the lack of consensus on a definition of "inefficient" fossil fuel subsidies, resulting in different approaches to assessing the impacts of such subsidies. However, different methodologies for quantifying fossil fuel subsidies can be useful for various analyses and in approaching reform. Price volatility is another key issue for governments grappling with subsidy reform as stable fuel prices are often a critical policy objective. Given the highly sensitive nature of fossil fuel subsidies and the wide misperception that they primarily benefit the poorer populations, governments face several difficulties in implementing reform measures. Such challenges include securing public support for reform, identifying those segments of the population that are most affected and how to best target assistance, identifying the appropriate timing to initiate reform measures, making reform measures resilient to price increases, and ensuring their sustainability. (A summary of key findings can be found in Appendix 2.)

Peer Reviews

Fossil fuel subsidy peer reviews can be a very useful tool for assessing the broad impact of subsidies and identifying technical and policy options for reform. Participants discussed the different peer review processes in APEC and the G20, respectively, and economies shared their experiences undergoing peer reviews in each. Participants noted that peer reviews can help governments bring key stakeholders together, increase transparency in the subsidy assessment and reform process, and can help drive the necessary policy changes. Since the peer review processes in both APEC and G20 are relatively new, these processes continue to improve. A few lessons have been learned on how to implement successful reviews as noted below.

APEC Peer Review Lessons Learned	G20 Peer Review Lessons Learned
<ul style="list-style-type: none"> • Economies should begin early consultations with the IFFSR Secretariat and/or team leader to clarify the process and obtain clear guidance (recommend 6 months in advance of review). • Economies should ensure sufficient time to gather materials and assemble all relevant stakeholders to prepare for the review. • The APEC peer review process is flexible and can accommodate varying definitions of a subsidy or support measure. • Active participation by the host economy and provision of complete information is vital for the success of the peer review. • Participation of various stakeholders in the peer review team visit provides for a more balanced, in-depth review. • A well-structured peer review panel with key expertise leads to a more robust review process. 	<ul style="list-style-type: none"> • Fossil fuel subsidies are complex and may cut across government agencies, requiring extensive coordination. • Dialogue, transparency, commitment, and consensus are key to a successful review. • A flexible approach that adapts to the economy' specific context can help promote reform. • APEC economies may participate in future G20 peer reviews as third-party reviewers, improving knowledge-sharing between the two groups.

Energy Access, Bridging the Gap with Clean and Renewable Energy Options

To facilitate the transition from fossil fuels to cleaner and renewable energy alternatives, participants discussed the benefits of fossil fuel subsidy reform in favor of clean and renewable energy development, integration of renewables into the grid and microgrids to help increase energy access and reliable energy services. The impact of subsidy reform on gender was also discussed. While very little is known about the gender implications from reform and mitigation measures, gender equality is fundamental to poverty reduction, so this aspect needs to be studied further as reform measures are designed and implemented.

Pricing Mechanisms

Given the complexity of fossil fuel subsidies, participants noted that reform often requires structural changes over time with alternative mechanisms to target assistance. There are various pricing mechanisms that can be utilized, as varying circumstances may require different models. It is critical to implement a pricing system that gets the prices right and transitions to market prices. The IMF further urges that prices also reflect the environmental costs of energy consumption and the general consumption taxes for raising government revenues. Gradual price increases are often more successful. Automatic pricing mechanisms to transition to fully market-

based energy pricing can help depoliticize reforms, improve transparency, and reduce the chance of reform reversal.

Managing Impacts of Reform

In designing effective reforms, experts stressed the importance of clearly identifying who is impacted the most and how they are impacted in order to develop tailored mitigation strategies. While much emphasis is placed on protecting the poorest households, experts noted it is important to also address the middle class as they are largely impacted given their higher energy consumption. When designing social assistance programs for poorer, vulnerable populations to mitigate the impacts of reform, governments should include measures that prevent fraud and waste to ensure those programs are effective. Finally, governments should also be prepared to address powerful sectors and special interest groups that could potentially impede reforms.

Communication Strategy

The communication strategy can greatly affect the success and sustainability of reform measures. Experts stressed that transparency throughout the process—from explaining the need for reforms throughout their implementation—is a critical component for lasting reforms. It is very important for government officials to speak with a unified message, to tailor messages to individual audiences and be prepared to address misperceptions or misinformation about reform efforts. Participants suggested media training for public officials. The right channels of communication are also important to spread the message broadly and effectively. Finally, a trusted, respected public figure can greatly benefit the public information campaign. Some case studies found the use of celebrities to be very effective. In some cases, a non-government public figure can more effectively earn public trust and support.

Conclusion

Through an open dialogue of lessons learned and sharing of best practices, workshop participants identified some common challenges and key elements to implementing successful, sustainable subsidy reform, including broadly:

- Getting the prices right.
- Implementing reforms in stages, as gradual price increases often work best.
- Managing the impacts of reform with key mitigating measures, including social reforms.
- Communicating broadly with stakeholders and increasing transparency at all stages.
- Redirecting savings to broader energy access and cleaner and renewable energy options.

Participants identified follow-on workshops in several of these areas that could be useful to continue capacity building for subsidy reform. These include individual workshops focused on successful communication strategies, best practices for social programs as part of mitigation efforts, and key elements for a successful peer review. Participants also suggested further discussions on the definition of “inefficient” subsidies, periodic reports on the progress of subsidy reform in the region, and maintaining a list of useful resources on the EWG website. These and other suggestions will be proposed to the EWG for consideration.

Appendix 1. Workshop Agenda

APEC Fossil Fuel Subsidy Reform Capacity Building Workshop

December 14 -15, 2015

Sheraton Princess Kaiulani Hotel, Kapuni Room, Honolulu, Hawaii

Day 1	December 14, 2015
9.00 – 9.15 am	<p>Welcome and Overview of Workshop</p> <ul style="list-style-type: none"> • Ms. Elena Thomas-Kerr, Senior Advisor and US Rep to APEC EWG, U.S. Department of Energy • Ms. Ann Katsiak, Deputy Chief of Party, US-ATAARI
9.15 – 10.00 am Session 1	<p>Scale/Impact of Inefficient Fossil Fuel Subsidies</p> <p>Inefficient Fossil Fuel Subsidies: Global Scale and Impact <i>Mr. Jon Hansen, Global Energy Policy, International Energy Agency (IEA)</i></p> <p>OECD’s Inventory of Support Measures for Fossil Fuels <i>Ms. Christina Timiliotis, Trade and Agricultural Directorate, Organization for Economic Cooperation and Development (OECD)</i></p> <p>Global Energy Subsidies: Estimates of Size and Reform Impacts <i>Mr. Baoping Shang, Expenditure Policy Division, International Monetary Fund (IMF)</i></p>
10.00 – 10.30 am	Coffee break
10.30 am – 11:45 am Session 2	<p>Lessons Learned/Best Practices 1: Domestic reform efforts</p> <p><u>Panel</u> (Moderator: Mr. Jon Hansen, IEA)</p> <p>Fossil Fuel Subsidy Reform in Thailand – The Case of LPG <i>Dr. Prasert Sinsukprasert, Deputy Director-General of Energy Policy and Planning Office (EPPO), Thailand</i></p> <p>Fossil Fuel Subsidy Reform in Indonesia <i>Mr. Rofyanto Kurniawan, Director of Center for Budget Policy, Ministry of Finance, Indonesia</i></p> <p>Experience from Mexico <i>Mr. Carlos Munoz, Director General for Income Policy, Mexico’s Ministry of Finance and Public Credit</i></p> <p>U.S. Low Income Energy Assistance Program (LIHEAP) <i>Mr. Nicholas St. Angelo, Former Director LIHEAP Program, U.S. HHS</i></p>
11.45 – 12.00 pm	Morning Wrap Up
12.00 – 1.30 pm	Lunch

<p>1.30 – 2.45 pm</p> <p>Session 3</p>	<p>Lessons Learned/Best Practices 2: APEC peer reviews</p> <p><u>Panel</u> (Moderator: Mr. Ananth Chikkatur, ICF)</p> <p>APEC Peer Review Process <i>Mr. Ananth Chikkatur, ICF International</i></p> <p>Peru: Fuel Price Stabilization Fund <i>Mr. Cesar Olazabal, General Directorate of Hydrocarbons, Ministry of Energy and Mining, Peru</i></p> <p>New Zealand Peer Review <i>Ms. Lorna Greening, Team Leader for New Zealand Peer FFS Review</i></p> <p>The Philippines Peer Review <i>Ms. Melita Carmen Valdez Obillo, Oil Industry Management Bureau, Philippines Department of Energy</i></p> <p>Experience from Vietnam and Upcoming Peer Review <i>Mr. Do Thanh Vihn, Vietnam Ministry of Industry and Trade</i></p>
<p>2.45 – 3.20 pm</p> <p>Session 4</p>	<p>Lessons Learned/Best Practices 3: G20 peer reviews</p> <p><u>Panel</u> (Moderator: Mr. Ananth Chikkatur, ICF)</p> <p>G20 Fossil Fuel Subsidy Peer Review Process <i>Mr. Gregory Gangelhoff, Office of Environment and Energy, Treasury Department, United States</i></p> <p>Promoting Energy Subsidies Reform for Energy Transition in China <i>DG Han Wenke, DG ERI/NDRC, People’s Republic of China</i></p>
<p>3.20 – 3.45 pm</p>	<p>Coffee Break</p>
<p>3.45 – 4.30 pm</p> <p>Session 5</p>	<p>Energy Access and Bridging the Gap with Renewables, Energy Efficiency, and Cleaner Energy Sources</p> <p><u>Panel</u> (Moderator: Mr. Nicholas St. Angelo, Energy Assistance Advisor)</p> <p>Reform Toward Renewables <i>Mr. Dan Ton, Office of Electricity and Delivery and Energy Reliability, U.S. Department of Energy</i></p> <p>Changing Landscape of Renewables and Energy Efficiency <i>Mr. Daniel E. Bilello, Laboratory Program Manager, National Renewable Energy Laboratory (NREL)</i></p> <p>Gender, Energy Access and Fossil Fuel Subsidy Reform <i>Mr. Kieran Clarke, Research Officer, International Institute for Sustainable Development (IISD) Global Subsidies Initiative (GSI)</i></p>
<p>4.30 – 5.00 pm</p>	<p>Discussion/Wrap Up</p> <p>All</p>

Day 2		December 15, 2015	
8.45 – 9:30 am Session 6	Recommendations for Phasing Out Inefficient Subsidies: Pricing Mechanisms <u>Panel</u> (Moderator: Ms. Lorna Greening, Independent Expert) IMF Work on Pricing Mechanisms <i>Mr. Baoping Shang, IMF</i> Getting the Prices Right: Case Study of India's Diesel and LPG Subsidies <i>Mr. Kieran Clarke, IISD/GSI</i>		
9:30 – 10:30 am Session 7	Recommendations for Phasing Out Inefficient Subsidies: Managing Impacts of Reform <u>Panel</u> (Moderator: Ms. Lorna Greening, Independent Expert) Estimating Impacts from FFSR: Some Methodological Questions <i>Mr. Kieren Clarke, IISD/GSI</i> Mexico's Perspective on Managing Impacts <i>Mr. Carlos Munoz, Ministry of Finance and Public Credit, Mexico</i> Managing Impacts: Case Study from Indonesia <i>Ms. Ririn Purnamasari, Senior Economist, Poverty Global Practice, The World Bank</i> Modelling of Distributional Impacts of Energy Subsidy Reforms <i>Ms. Christina Timiliotis, OECD</i>		
10.30 – 11.00 am	Coffee Break		
11.00 – 11.45 am Session 8	Recommendations for Phasing Out Inefficient Subsidies: Communication Strategies <u>Panel</u> (Moderator: Dan Bilello, NREL) Key Components of a Communications Strategy: Lessons from Egypt <i>Mr. Kieran Clarke, IISD/GSI</i> Communications Strategy: Case Study from Indonesia <i>Ms. Ririn Purnamasari, The World Bank</i> Communications Strategy: Lessons from the Middle East <i>Mr. Rick Khan, U.S. State Department</i>		
11.45 – 12.15 pm	Discussion / Summary of Recommendations All		
12.15 – 12.30 pm	Concluding Remarks and Next Steps <i>Ms. Elena Thomas-Kerr, U.S. Department of Energy</i>		
12.30 – 1.30 pm	Lunch		

Appendix 2. Key Findings

- Inefficient fossil fuel subsidies are a complex, structural challenge.
- In many cases, fossil fuel subsidies have become regressive and fail to properly target the poorer populations.
- While there is not one agreed definition of “inefficient” subsidies in international fora, there are several valid definitions that include broader subsidies or related measures that can be useful to consider when structuring subsidy reform.
- Timing for reform is a key consideration given the political sensitivity of this issue. Current low oil prices offer a window of opportunity.
- Fossil fuel subsidies are a barrier for clean energy development. Savings from reform can be redirected to cleaner and renewable energy options.
- Reform can reduce the financial drain on government budgets caused by inefficient subsidies, but also can reduce the climate impacts of wasteful fossil fuel consumption.
- Governments need to get the prices right with effective pricing mechanisms that minimize impacts while progressing to market prices. Governments may also consider broader considerations such as environmental costs of energy consumption and the general consumption taxes for raising government revenues.
- Price volatility for consumers is a key challenge in implementing subsidy reforms.
- Gradual price increases toward market price can help depoliticize energy prices and help sustain the reform process.
- Transparency is key. Governments need to communicate the actual impact of subsidies and their limitations; and how reforms can better target goals.
- Government must also mitigate the impact of reforms to help sustain them.
- Governments should communicate their strategy for reform, track implementation of measures and report on progress to maintain public support.
- Success requires extensive communication across the government and with all stakeholders, including private sector and the public, to support reforms.
- Governments must seek to ensure resilience of their reform structure as oil prices may begin to rise again.
- Peer reviews can be a very useful tool to identify options for reform. It is best to start the coordination process well in advance of a peer review and to engage stakeholders, NGOs and others early in the process.
- Gender is an important consideration for energy access and subsidy reform but much more analysis needs to be done to understand the impacts.