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G20 Research Group  
at Trinity College at the Munk School of Global Affairs  
in the University of Toronto  
presents the

## **2016 G20 Hangzhou Summit Interim Compliance Report**

6 September 2016 to 17 February 2017

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“The University of Toronto ... produced a detailed analysis to the extent of which each G20 country has met its commitments since the last summit ... I think this is important; we come to these summits, we make these commitments, we say we are going to do these things and it is important that there is an organisation that checks up on who has done what.”

— *David Cameron, Prime Minister, United Kingdom, at the 2012 Los Cabos Summit*

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## 5. Energy: Fossil Fuel Subsidies

“We also reaffirm our commitment to rationalize and phase-out inefficient fossil fuel subsidies that encourage wasteful consumption over the medium term, recognizing the need to support the poor.”

*G20 Hangzhou Leaders’ Communiqué*

### Assessment

	No Compliance	Partial Compliance	Full Compliance
Argentina		0	
Australia	-1		
Brazil	-1		
Canada	-1		
China		0	
France	-1		
Germany	-1		
India	-1		
Indonesia	-1		
Italy	-1		
Japan	-1		
Korea	-1		
Mexico		0	
Russia		0	
Saudi Arabia	-1		
South Africa	-1		
Turkey	-1		
United Kingdom	-1		
United States	-1		
European Union	-1		
Average		-0.80	

### Background

At the 2009 Pittsburgh Summit, this commitment was first introduced. National Energy and Finance Ministers committed to assess their respective national circumstances in order to develop implementation strategies and a timeframe, and G20 members asked the International Energy Agency, Organization of the Petroleum Exporting Countries, Organisation for Economic Co-operation and Development, and World Bank (hereafter referred to as the IGO-4) to analyze the existing scope of energy subsidies and provide suggestions for initiative implementation.

At the 2010 Toronto Summit, 13 G20 members provided specific implementation strategies, and seven remaining members stated that they did not have inefficient fossil fuel subsidies (see Table 6). The IGO-4 presented a report with the analysis and suggestions requested by G20 members at the previous summit.<sup>804</sup>

At the 2010 Seoul Summit, G20 members re-committed to rationalize and phase-out over the medium-term inefficient fossil fuel subsidies, and the IGO-4 released a second report providing 2009 data on fossil fuel consumption subsidies as well as strategies for their phase-out.<sup>805</sup> At the 2011

<sup>804</sup> Analysis of the Scope of Energy Subsidies and Suggestions for the G20 Initiative. IEA, OPEC, OECD, World Bank (Toronto) 16 June 2010. Access Date: 15 February 2016. <http://www.oecd.org/env/45575666.pdf>.

<sup>805</sup> The Scope of Fossil Fuel Subsidies in 2009 and a Roadmap for Phasing out Fossil Fuel Subsidies. IEA, OECD and World Bank (Seoul) 2010. Access Date: 15 February 2016. <http://www.oecd.org/env/cc/46575783.pdf>.

Cannes Summit, the IGO-4 provided a third report highlighting the extent of subsidies and other support to fossil-fuel production and consumption, potential economic and environmental benefits of subsidy reform, and guidance on how countries could undertake the reforms while still protecting the poor.<sup>806</sup>

At the 2012 Los Cabos Summit, G20 members requested Finance Ministers to explore options for a voluntary peer review process to assess commitment progress and report progress by the next summit. At the 2013 St. Petersburg Summit, Finance Ministers presented a Methodology for G20 Voluntary Peer Reviews on Inefficient Fossil Fuel Subsidies That Encourage Wasteful Consumption.<sup>807</sup>

At the 2014 Brisbane Summit, China and the United States agreed to be the first countries to engage in mutual peer reviews. As well, the World Bank Group prepared a report on transitional policies to assist the poor while rationalizing and phasing out inefficient fossil fuel subsidies that encourage wasteful consumption.

At an Energy Ministers Meeting in 2015, a report providing updates on recent progress relating to this commitment was presented to the G20 Energy Sustainability Working Group.<sup>808</sup> The same year, Germany announced it would serve on both the Chinese and American peer review teams and undergo a peer review of its own. Mexico announced that it would serve on the American peer review team and undergo a peer review as well. At the 2015 Antalya Summit, G20 leaders reiterated their commitment to rationalize and phase-out, over the medium term, inefficient fossil fuel subsidies that encourage wasteful consumption.

At the 2016 Hangzhou Summit, the G20 energy ministers “reaffirmed commitment to rationalize and phase-out inefficient fossil fuel subsidies that encourage wasteful consumption over the medium term, recognizing the need to support the poor.”<sup>809</sup> On 5 September, 2016, US and China published their G20 peer reviewed assessments of their efforts to phase out inefficient fossil fuel subsidies.<sup>810</sup> Germany, Mexico, and Indonesia have since joined China and the US in agreeing to undertake peer reviews of their own under the G20.<sup>811</sup>

**Table 6: Country-Specific Implementation Strategies, Delivered at the 2012 Los Cabos Summit<sup>812</sup>**

These summaries describe G20 members’ self-reported implementation strategies pertaining to the progressive phase-out of inefficient fossil fuel subsidies and are not supported by material evidence. As such they will *not* be used to establish members’ compliance scores, and are provided for

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<sup>806</sup> Joint Report by IEA, OPEC, OECD and World Bank on Fossil Fuel and Other Energy Subsidies: An update of the G20 Pittsburgh and Toronto Commitments. IEA, OPEC, OECD, World Bank (Paris) 2011. Access Date: 15 February 2016. <http://www.oecd.org/site/tadffs/49006998.pdf>.

<sup>807</sup> Methodology for G20 Voluntary Peer Reviews on Inefficient Fossil Fuel Subsidies that Encourage Wasteful Consumption. G20 (Toronto) 2010. Access Date: 15 February 2016. <http://www.g20.org/English/Documents/PastPresidency/201512/P020151228453233373904.pdf>.

<sup>808</sup> Update on Recent Progress in Reform of Inefficient Fossil Fuel Subsidies that Encourage Wasteful Consumption. IEA, OECD (Istanbul) 2 October 2015. Access Date: 15 February 2016. <http://www.g20.org/English/Documents/PastPresidency/201512/P020151228338573300315.pdf>.

<sup>809</sup> G20 Leader’s Communiqué: Hangzhou Summit. G20 (Toronto) 5 September, 2016. Access Date: 23 October, 2016. <http://www.g20.utoronto.ca/2016/160905-communiqu.html>

<sup>810</sup> G20 Leader’s Communiqué: Hangzhou Summit. G20 (Toronto) 5 September, 2016. Access Date: 23 October, 2016. <http://www.g20.utoronto.ca/2016/160905-communiqu.ht>

<sup>811</sup> An overview of the G20 and APEC voluntary peer reviews of fossil-fuel subsidies, OECD 13 October 2016. Access Date: 17 February 2017. <https://www.iea.org/media/countries/nonmembers/IntroductoryIntervention1.pdf>

<sup>812</sup> G20 Initiative on Rationalizing and Phasing Out Inefficient Fossil Fuel Subsidies. G20 Research Group (Toronto) 4 September 2013. Access Date: 15 February 2016. <http://www.g20.utoronto.ca/compliance/2012loscabos-final/11-2012-g20-compliance-final.pdf>.

informative purposes only. In this report, Australia, Brazil, France, Japan, Saudi Arabia, South Africa and the United Kingdom all claimed to have efficient fossil fuel subsidies.

Argentina	Proposes to reduce household subsidy for propane gas consumption as natural gas access is expanded.
Canada	Proposes to implement recently released draft legislation to phase-out the accelerated capital cost allowance for oil sands assets over the 2011-15 period. Previously phased-out other tax preferences applying to fossil fuel producers.
China	Proposes to gradually reduce the urban land-use tax relief for fossil fuel producers.
Germany	Proposes to discontinue subsidized coal mining in a socially acceptable manner by the end of 2018.
India	Proposes to work out implementation strategies and timetables for rationalizing and phasing out inefficient fossil fuel subsidies based on the recommendation of the Empowered Group of Ministers that has been constituted.
Indonesia	Proposes to phase-out inefficient fossil fuel subsidies in a gradual manner in parallel with managing demand by adopting measures that will reduce fossil fuel energy consumption and by gradually narrowing the gap between domestic and international prices.
Italy	Proposes to continue with the planned expiration of subsidies for certain cogeneration plants, and negotiate on a voluntary basis with private operators of these plants the timing of their recess from the subsidy scheme.
Korea	Proposes to phase-out subsidies to anthracite coal and briquette producers.
Mexico	Proposes to continue current policies. Based on current market conditions, subsidies to gasoline, diesel, and liquid petroleum gas are expected to disappear in the medium term.
Russia	Proposes to implement the commitment to rationalize and phase-out inefficient fossil fuel subsidies through national economic and energy policy, within the framework of its Energy Strategy 2030 and the Concept of Long-Term Social and Economic Development, as well as in the context of its accession to the World Trade Organization.
Turkey	Proposes to work on a restructuring plan to rationalize the inefficient producer subsidies transferred to a stated-owned hard coal producing enterprise.
United States	Proposes to pass legislation to eliminate 12 preferential tax provisions related to the production of coal, oil and natural gas.

### Commitment Features

The G20 reaffirm its commitment to rationalize and phase-out inefficient fossil fuel subsidies that encourage wasteful consumption over the medium term, recognizing the need to support the poor.

This commitment has two parts: 1) rationalizing and phasing out fossil fuel subsidies over the medium-term and 2) providing support for the poor.

#### Part 1 - Rationalize and Phase out Fossil Fuel Subsidies (FFS):

While there is no universal definition of a FFS, the World Trade Organization (WTO) has developed a general definition that is accepted by 153 member states. There are various types of FFS:<sup>813</sup>

Direct financial transfers: e.g. fuel vouchers or grants to producers or consumers

<sup>813</sup> Fossil Fuel Subsidies Policy Brief (Geneva) 2015 Access Date: 15 February 2016  
[http://www.unep.org/greeneconomy/Portals/88/documents/GE\\_BriefFossilFuelSubsidies\\_EN\\_Web.pdf](http://www.unep.org/greeneconomy/Portals/88/documents/GE_BriefFossilFuelSubsidies_EN_Web.pdf).

Trade instruments: e.g. tariffs on imports of crude oil and petroleum products, making domestic fuel production more lucrative, quotas and restrictions

Regulations: e.g. gasoline prices regulated at below international market levels, regulations that prioritise the use of domestic coal for power generation, market-access restrictions

Tax breaks: e.g. favourable tax deductions for depletion or investment in oil and gas fields and coal deposits, excise exemptions for fuels used in international air, rail or water transport

Credits: e.g. loan guarantees to finance energy infrastructure or preferential rates on loans to producers

Risk transfers: e.g. insurance or indemnification provided to fossil-fuel producers at below-market levels, limitation of financial liability

Below-full cost access to government goods and services: e.g. provision of seismic data for oil and gas exploration.

Within the G20, inefficient FFS has not been strictly defined. FFS outlined as member-specific targets, are broad based and no consensus was made between G20 members as to what does and does not constitute a FFS. Furthermore, China and the United States peer review also did not refine or stipulate the parameters of an inefficient FFS. Although the G20 has not adopted a formal definition of what constitutes a fossil-fuel subsidy, the terms of reference prepared by China and the United States specify that the most common forms of subsidies include:

- direct budgetary support (or “fiscal transfer subsidies” as stated in China’s self-report);
- tax-code provisions (or “tax-preference provisions”);
- government provision either at no charge or for below-market rates of auxiliary goods or services that facilitate fossil-fuel use or production; and
- requirements that non-government entities provide particular services to fossil-fuel producers at below-market rates, or that require non-government entities to purchase above-market quantities of fossil fuels or related services.

Commodities and products that are to be considered “fossil fuels” for the purpose of the country’s peer review under the G20 may include coal (including raw coal, solid fuels, coal gas, and coal-bed methane), petroleum (including crude oil, natural gas liquids, and refined petroleum products), natural gas (including associated and nonassociated gases), and the heat and electricity generated using the above fuels. This scope does not include fossil fuels used for non-energy purposes (e.g. their transformation into solvents such as white spirit).

Activities that can attract subsidies in relation to fossil fuels are here taken to comprise the entire supply chain for fossil fuels, starting from the upstream segment (the exploration, development, and extraction of fossil resources) and moving down the chain to bulk transportation (e.g. by pipeline or freight train), refining, transformation, and wholesale and retail sales of refined products. They also include those fuels’ later combustion by the industrial, residential, governmental, and transport sectors.”<sup>814</sup>

For the purpose of this report, all the above mentioned forms of FFS will count towards compliance. Inefficient is considered to be any subsidy that is not directly aimed at increasing environmental

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<sup>814</sup> The United State’s Efforts to phase out and rationalize its inefficient fossil-fuel subsidies. G20 2016 China (Hanzhou) 5 September 2016 Access Date: 13 November 2016.  
<http://www.g20.org/English/Documents/Current/201609/P020160919418466525465.pdf>

efficiency. An inefficient FFS can be aimed to lower the price of fossil fuels to the end user, to below market value thereby increasing consumption and distorting the market.

#### Part 2 - Targeted Support for the Poor:

The G20 also recognized the need to support the poor. The World Bank found that even though FFS are economically inefficient, “price increases from the removal of fossil-fuel subsidies are likely to adversely affect lower-income households who are already struggling.” The report by the World Bank, submitted to the G20, identified two broad types of approaches available to members seeking to reduce subsidies and support the poor: 1) improving the poverty targeting of existing subsidies, including limiting the number of subsidized goods to those used by the poor or limiting the quantities subsidized; and 2) introducing or strengthening other forms of support for the livelihoods of the poor, in cash or in-kind.

In addition to assessing whether action is taken to rationalize and phase-out fossil fuel subsidies, G20 members must also provide targeted support for the poor.

#### Scoring Guidelines

-1	Member did not rationalize or phase-out fossil fuel subsidies over the medium-term AND did not support the poor.
0	Member rationalized and phased-out fossil fuel subsidies over the medium-term BUT did not support the poor.
+1	Member rationalized and phased-out fossil fuel subsidies over the medium-term AND provided support to the poor.

*Lead Analyst: Ethan Tsai*

#### Argentina: 0

Argentina has partially complied with its commitment to rationalize and phase-out inefficient fossil fuel subsidies, over the medium term, while recognizing the need to support the poor.

On 7 October 2016, the Energy Minister approved a 0.8 per cent month-on-month reduction of ethanol prices. The reduction will lessen the cost to oil refiners in producing the state-required 12 per cent ethanol-oil blend of gasoline.<sup>815</sup> Ethanol combinations are an attempt to reduce the country’s reliance on fossil fuels and diversify the energy sector.<sup>816</sup>

On 7 October 2016, a new pricing scheme was enacted.<sup>817</sup> Natural gas regulator Enargas published the resolutions, applying to residential, commercial, and small-medium enterprise (SMEs) segments.<sup>818</sup> The plan aims to phase out all government subsidies for natural gas by 2022, with most

<sup>815</sup> Argentina cuts ethanol prices for oil refiners in October month on month, S&P Global Platts (London) 9 October 2016. Access Date: 10 November 2016. <https://www.platts.com/latest-news/agriculture/buenosaires/argentina-cuts-ethanol-prices-for-oil-refiners-27683744>

<sup>816</sup> Argentina to boost ethanol use in fuels: industry body, Reuters (London) 8 April 2016. Access Date: 10 November 2016. <http://www.reuters.com/article/us-argentina-biofuels-idUSKCN0X51TZ>

<sup>817</sup> Argentina to Phase out Natural Gas Subsidies Nationwide. BNamericas October 11 2016. Date of Access: 26 October 2016. <http://www.bnamericas.com/en/news/petrochemicals/argentina-to-phase-out-natural-gas-subsidies-nationwide1>.

<sup>818</sup> Argentina to Phase out Natural Gas Subsidies Nationwide. BNamericas October 11 2016. Date of Access: 26 October 2016. <http://www.bnamericas.com/en/news/petrochemicals/argentina-to-phase-out-natural-gas-subsidies-nationwide1>.

of the country making the transition by 2019.<sup>819</sup> The goal is to encourage rational fuel consumption and support growth of local exploration and petroleum (E&P).<sup>820</sup> Lower rates apply to the country's poor and needy, including retirees, people dependent on electronic devices for their health, and households earning less than two minimum wages.<sup>821</sup> The government implemented a cap such that residential users will only have to pay either ARS250 or 300 per cent more than past bills (whichever is higher).<sup>822</sup> Payers that decrease their gas consumption by 15 per cent or more will also receive decreases in their bills.<sup>823</sup>

Argentina has taken clear steps to decrease its fossil fuel subsidies by enacting a new pricing scheme that shifts consumption away from natural gas, and has implemented policies support the poor most affected by this change by providing them with lower rates. However, Argentina has also lowered the cost of ethanol production for oil refineries, thereby providing a direct subsidy. Thus, Argentina receives a score of 0.

*Analyst: Ben Windeler*

### **Australia: -1**

Australia has not complied with its commitment to rationalize and phase out inefficient subsidies that encourage wasteful consumption, while recognizing the need to support the poor.

On 3 November 2016, the Victorian government in Australia announced that the Hazelwood coal-fired power station in Victoria's LaTrobe Valley would close on 31 March 2017. In response, the federal government offered financial packages to assist workers who would be affected by the closure. The closure led to a loss of up to a 1000 jobs<sup>824</sup> and a rise in electricity prices by 4 per cent.<sup>825</sup> The federal government also announced that it would provide the Victorian government AUD43 million to promote job opportunities: AUD20 million for infrastructure, AUD3 million to aid employees and AUD20 million for a regional jobs package.<sup>826</sup>

Australia has supported the affected workers, however, has not phased out inefficient subsidies that encourage wasteful consumption in the medium term, nor supported the poor. Thus, Australia receives a score of -1.

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<sup>819</sup> Argentina to Phase out Natural Gas Subsidies Nationwide. BNamericas October 11 2016. Date of Access: 26 October 2016. <http://www.bnamericas.com/en/news/petrochemicals/argentina-to-phase-out-natural-gas-subsidies-nationwide1>.

<sup>820</sup> Argentina to Phase out Natural Gas Subsidies Nationwide. BNamericas October 11 2016. Date of Access: 26 October 2016. <http://www.bnamericas.com/en/news/petrochemicals/argentina-to-phase-out-natural-gas-subsidies-nationwide1>.

<sup>821</sup> Argentina's Government Makes Higher Natural Gas Rates Official. The Bubble 7 October 2016. Date of Access: 26 October 2016. <http://www.thebubble.com/argentinas-government-makes-new-gas-rates-official/>.

<sup>822</sup> Argentina's Government Makes Higher Natural Gas Rates Official. The Bubble 7 October 2016. Date of Access: 26 October 2016. <http://www.thebubble.com/argentinas-government-makes-new-gas-rates-official/>.

<sup>823</sup> Argentina's Government Makes Higher Natural Gas Rates Official. The Bubble 7 October 2016. Date of Access: 26 October 2016. <http://www.thebubble.com/argentinas-government-makes-new-gas-rates-official/>.

<sup>824</sup> Hazelwood coal power station to close with loss of up to 1,000 jobs, The Guardian 3 November 2016. Access Date: 10 November 2016. <https://www.theguardian.com/australia-news/2016/nov/03/hazelwood-coal-power-station-to-close-with-loss-of-800-jobs>

<sup>825</sup> Hazelwood coal power station to close with loss of up to 1,000 jobs, The Guardian 3 November 2016. Access Date: 11 November 2016. <https://www.theguardian.com/australia-news/2016/nov/03/hazelwood-coal-power-station-to-close-with-loss-of-800-jobs>

<sup>826</sup> Hazelwood coal power station to close with loss of up to 1,000 jobs, The Guardian 3 November 2016. Access Date: 11 November 2016. <https://www.theguardian.com/australia-news/2016/nov/03/hazelwood-coal-power-station-to-close-with-loss-of-800-jobs>

*Analyst: Novera Khan*

**Brazil: -1**

Brazil has not complied with its commitment to rationalize and phase-out inefficient fossil fuel subsidies, over the medium term, while recognizing the need to support the poor.

On 8 November 2016, Petrobras said in a statement it planned to cut diesel and gasoline prices following a decline in oil prices. Diesel prices were expected to fall up to 6.6 per cent and gasoline prices up to 1.3 per cent.<sup>827</sup> This follows cuts in wholesale gasoline and diesel prices from the previous month when Petrobras cut gasoline prices 3.2 per cent and diesel 2.7 per cent.<sup>828</sup> These cuts were part of a new pricing policy based on International Price Parity, taking into account world oil prices, domestic refining costs and foreign exchange fluctuations and thus, is not considered a subsidy.<sup>829</sup>

On 18 November 2016, President Temer vetoed USD1.5 billion in coal subsidies for the period 2023-2027, that were approved by Brazil's senate in October 2016. Brazil's Environment Ministry, Ministerio do Meio Ambiente (MMA), claimed that this incentive would jeopardize the commitments Brazil has made under the Paris Climate Agreement.<sup>830</sup> These subsidies were not yet implemented and therefore do not count toward compliance.

On 29 December 2016, President Temer announced that structural reforms in early 2017 will include streamlining the complex tax regime of the oil and gas sector as part of a broader effort to lift Brazil from its deepest economic recession in decades.<sup>831</sup> The outcome of these reforms will be monitored for the final report.

Brazil has taken steps to remove coal subsidies for the period 2023 to 2027, no evidence was found that Brazil has phased out inefficient subsidies that encourage wasteful consumption in the medium term, or supported the poor.

Therefore, Brazil has been awarded a compliance score of -1.

*Analyst: Laila Kanji*

**Canada: -1**

Canada has not complied with its commitment to rationalize and phase out inefficient subsidies that encourage wasteful consumption, while recognizing the need to support the poor.

No actions were registered during the compliance period.

Canada has not phased out inefficient subsidies that encourage wasteful consumption in the medium term, nor supported the poor. Thus, Canada receives a score of -1.

*Analyst: Novera Khan*

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<sup>827</sup> Brazil's Petrobras to cut diesel, gasoline prices as oil falls, Reuters, 8 November 2016, Access Date: 12 November 2016 <http://www.reuters.com/article/us-petrobras-gasoline-idUSKBN1332T0>

<sup>828</sup> Brazil president says no tax increase after cut in fuel price, Reuters, 15 October 2016, Access Date 10 January 2017 <http://www.reuters.com/article/us-petrobras-fuel-tax-idUSKBN12F001>

<sup>829</sup> Brazil's Petrobras cuts gasoline, diesel prices, Agencia Brasil, 14 October 2016, Access Date: 12 November 2016 <http://agenciabrasil.ebc.com.br/economia/noticia/2016-10/petrobras-reduz-preco-da-gasolina-em-32>

<sup>830</sup> Brazil's President Vetoes \$1.5B in Coal Subsidies, Ministerio do Meio Ambiente, 18 November 2016, Access Date: 11 January 2017 <http://www.mma.gov.br/index.php/comunicacao/agencia-informma?view=blog&id=2006>

<sup>831</sup> Brazil's president to pursue tax reform in 2017, Reuters, 29 December 2016, Access Date: 11 January 2017 <http://www.reuters.com/article/us-brazil-economy-temer-idUSKBN14I1ED>

### **China: 0**

China has partially complied with its commitment to rationalize and phase out inefficient fossil fuel subsidies, over the medium term, while recognizing the need to support the poor.

On 18 January 2017, China's National Energy Administration announced the cancellation of 103 national coal-fired power plants projects in an effort to move away from "the dirtiest forms of electricity generation."<sup>832</sup> This move directly shift funds away from nationally funded coal projects.

China has phased-out fossil fuel subsidies, however, has not taken steps to support the poor. Thus, China receives a score of 0.

*Analyst: Cindy Ou*

### **France: -1**

France has not complied with its commitment to rationalize and phase-out inefficient fossil fuel subsidies, over the medium term, while recognizing the need to support the poor.

On 17 November 2016, French President Francois Hollande announced plans to shut down all its coal-fired power plants by 2023.<sup>833</sup> The extent of subsidies to these plants is unclear.

On 13 October 2016 it was announced that France will end the diesel-gasoline tax gap for companies' car fleets. This will remove the incentive to buy diesel vehicles.<sup>834</sup> This was also outlined in France's Multinational Energy Plan (MEP) published in February 2016.<sup>835</sup> The Plan is a comprehensive strategy that encompasses "all aspects" of energy policy and "all forms" of energy. Its three objectives to "ensure the success of the energy transition are: a legal framework with clear targets, a master plan setting priority actions, and additional plans and strategies to implement the overall plan, such as the strategy for biomass mobilization. On fossil fuels, the MEP aims to reduce dependence on imports. In this regard, France's stated ambition is to "successfully make the transition to an energy system which is more efficient, less wasteful, more diverse and thus more resilient, protecting human health and the environment while guaranteeing access to energy." The target is to reduce primary consumption of fossil fuels by 22% in 2023 compared with 2012. The primary tool identified to achieve this goal is a carbon price.<sup>836</sup> France has a target to increase its carbon tax in 2017 to EUR30.5/tCO<sub>2</sub>.<sup>837</sup> However, on 20 October 2016, it was reported that France planned to drop its

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<sup>832</sup> China Cancels 103 Coal Plants, Mindful of Smog and Wasted Capacity, The New York Times. 18 January 2017. Access Date: 3 February 2017. [https://www.nytimes.com/2017/01/18/world/asia/china-coal-power-plants-pollution.html?\\_r=0](https://www.nytimes.com/2017/01/18/world/asia/china-coal-power-plants-pollution.html?_r=0)

<sup>833</sup> France to shut down all coal-fired power plants by 2023, The Independent. 17 November 2016. Access Date: February 3, 2017. <http://www.independent.co.uk/news/world/europe/france-close-coal-plants-shut-down-2023-global-warming-climate-change-a7422966.html>

<sup>834</sup> France will end diesel-gasoline tax gap for companies' car fleets, 13 October 2016, Automotive News Europe. Date of Access: 01 March 2017. <http://europe.autonews.com/article/20161013/ANE/161019929/france-will-end-diesel-gasoline-tax-gap-for-companies-car-fleets>

<sup>835</sup> France to announce energy plan by end of February, 8 February 2017, Renewables Now. Date of Access: 02 March 2017. <https://renewablesnow.com/news/france-to-announce-energy-plan-by-end-of-february-512147/>

<sup>836</sup> Multinational Energy Plan, 2016, Ministry of Ecology, Sustainable Development and Energy, 02 March 2017. [http://www.developpement-durable.gouv.fr/sites/default/files/Synthèse\\_EN\\_PPE.pdf](http://www.developpement-durable.gouv.fr/sites/default/files/Synthèse_EN_PPE.pdf)

<sup>837</sup> The distributional effects of carbon taxation France: its impact on equity, 13 January 2017. Date of Access: 01 March 2017. [http://www.modelisation-prospective.org/sites/modelisation-prospective.org/files/files/Journee\\_Chaires\\_2016/Berry\\_JourneeChaires\\_2017-01-13.pdf](http://www.modelisation-prospective.org/sites/modelisation-prospective.org/files/files/Journee_Chaires_2016/Berry_JourneeChaires_2017-01-13.pdf)

carbon tax plans.<sup>838</sup> This was also reported on 24 October 2016 in an article titled “Paris withdraws plans for carbon tax on coal.”<sup>839</sup>

France has committed to closing coal-fired power plants however, has not phased out inefficient subsidies that encourage wasteful consumption in the medium term, nor supported the poor. Thus, France receives a score of -1.

*Analyst: Friederike Wilke*

#### **Germany: -1**

Germany has not complied with its commitment to rationalize and phase-out inefficient fossil fuel subsidies, over the medium term, while recognizing the need to support the poor.

On 14 November 2016, the Federal Cabinet approved the Klimaschutzplan 2050.<sup>840</sup> The plan contains a passage on the planned phase-out of lignite in German energy production but does not address a set date for the phase-out.<sup>841</sup>

On 17 November 2016, Germany released its Climate Action Plan 2050. The framework includes target corridors for “reducing greenhouse gas emissions in individual economic sectors.” The plan focuses on the restructuring of the energy sector with renewable electricity generation, other sectors such as transport will be in a position to phase out climate-damaging fossil fuels.<sup>842</sup>

Germany has presented broad plans regarding its goal to decrease subsidies for fossil fuels, but has not phased out inefficient subsidies that encourage wasteful consumption in the medium term, nor supported the poor. Thus, Germany receives a score of -1.

*Analyst: Friederike Wilke*

#### **India: -1**

India has not complied with its commitment to rationalize and phase-out inefficient fossil fuel subsidies, over the medium term, while recognizing the need to support the poor.

On 13 October 2016, the Indian government projected that kerosene subsidies were to fall by 25 per cent this fiscal year. This estimate is based on a combination of factors such as the reduction in “kerosene supply by 5 per cent, voluntary cuts by some states, increases in retail prices and roll out of direct cash transfer for beneficiaries.”<sup>843</sup> However, no new actions were registered.

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<sup>838</sup> France to drop carbon tax plan, 20 October 2017, Reuters. Date of Access: 01 March 2017.

<http://www.reuters.com/article/us-france-carbon-idUSKCN12K2OG>

<sup>839</sup> Paris withdraws plans for carbon tax on coal, 24 October 2016, Euractive. Date of Access:

<sup>840</sup> Bob Berwyn, Germany Reasserts Climate Leadership, Outlines Path to Carbon-Neutral Economy by 2050, Inside Climate News, 17 November 2016. Access Date: 11 January 2016

<https://insideclimatenews.org/news/17112016/germany-climate-change-carbon-neutral-economy-cop22-paris-agreement>

<sup>841</sup> Mona Fromm, Marrakesch - Deutschland reist nur mit kleinem Gepäck an, Orange by Handelsblatt, 14 November 2016. Access Date: 10 January 2016 <http://orange.handelsblatt.com/artikel/16813>

<sup>842</sup> Climate Action Plan 2050: Cabinet adopts guide to climate neutral Germany, Federal Ministry for the Environment (Berlin) 14 November 2016. Access Date: 3 February 2017. <http://www.bmub.bund.de/en/press/press-releases/detailansicht-en/artikel/climate-action-plan-2050-cabinet-adopts-guide-to-climate-neutral-germany/>

<sup>843</sup> Kerosene subsidy likely to decline by 25 per cent this fiscal year, The Economic Times, 13 October 2016. Date of Access: 10 November 2016. <http://economictimes.indiatimes.com/news/economy/policy/kerosene-subsidy-likely-to-decline-by-25-per-cent-this-fiscal-year/articleshow/54819717.cms>

India has not phased out inefficient subsidies that encourage wasteful consumption in the medium term, nor supported the poor. Thus, India receives a score of -1.

*Analyst: Nidhi Varma*

**Indonesia: -1**

Indonesia has not complied with its commitment to rationalize and phase-out inefficient fossil fuel subsidies, over the medium term, while recognizing the need to support the poor.

On 23 September 2016, Energy and Mineral Resources Ministry's Oil and Gas Director general Wiratmaja Puja announced the removal of taxes on oil and gas exploration. Under this new regulation, the government will provide oil and gas contractors an internal rate of return above 15 per cent, in an effort to increase investment in the country's flagging oil and gas sector.<sup>844</sup>

On 5 October 2016, Industry Minister Airlangga Hartarto announced that starting 1 January 2017, gas prices for ten industrial sectors will be reduced from USD9.50 per million British thermal unit (mmbtu) to USD6 per mmbtu. According to a government economic impact assessment, gas price cuts for the ten sectors would deliver IDR31 trillion (USD2.38 billion) in economic benefits every year.<sup>845</sup> As of 30 January 2017, Indonesia's gas price is at USD2.34 which is well below average global market value of USD3.88 per gallon.

On 27 October 2016, Coordinating Minister for Maritime Affairs Luhut Binsar Pandjaitan confirmed energy subsidies will be reduced from IDR 94.35 trillion in the 2016 Revised State Budget to IDR77.3 trillion in the 2017 State Budget.<sup>846</sup>

On 13 November 2016, Deputy Energy and Mineral Resources Minister Arcandra Tahar said that a single fuel price would be implemented across the country in January 21 2017. This policy has already been implemented in Papua and West Papua and reflects the "government's efforts to make the retail fuel price structure more just, whereby all Indonesians will be entitled to subsidized fuel oil at the same price."<sup>847</sup>

Indonesia has substantively increased subsidies and has not phased out inefficient subsidies that encourage wasteful consumption in the medium term, nor supported the poor. Thus, Indonesia receives a score of -1.

*Analyst: Laila Kanji*

**Italy: -1**

Italy has not complied with its commitment to rationalize and phase out inefficient fossil fuel subsidies, over the medium term, while recognizing the need to support the poor

No actions were registered during the compliance period.

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<sup>844</sup> Oil industry welcomes Indonesia's tax reform, but says it's not enough, Reuters, 23 September 2016, Access Date: 13 November 2016 <http://www.reuters.com/article/us-indonesia-oil-gas-idUSKCN11T0E9>

<sup>845</sup> Gas price cuts could result in Rp31tin economic benefits: Minister, Jakarta Post, 5 October 2016, Access Date: 13 November 2016 <http://www.thejakartapost.com/news/2016/10/05/gas-price-cuts-could-result-in-rp-31t-in-economic-benefits-minister.html>

<sup>846</sup> Minister Confirms Energy Subsidy Cut, Tempo, 27 October 2016, Access Date: 14 November 2016 <http://en.tempo.co/read/news/2016/10/27/056815626/Minister-Confirms-Energy-Subsidy-Cut>

<sup>847</sup> Single price for fuel across Indonesia in January 2017: Deputy Minister Tahar; Antara News, 13 November 2016, Access Date: 10 January 2017 <http://www.antaraneews.com/en/news/107775/single-price-for-fuel-across-indonesia-in-january-2017-deputy-minister-tahar>

Italy has not phased out inefficient subsidies that encourage wasteful consumption in the medium term, nor supported the poor. Thus, Italy receives a score of -1.

*Analyst: Novera Khan*

**Japan: -1**

Japan has not complied with its commitment to rationalize and phase out inefficient fossil fuel subsidies, over the medium term, while recognizing the need to support the poor.

No actions were registered during the compliance period

Japan has not phased out inefficient subsidies that encourage wasteful consumption in the medium term, nor supported the poor. Thus, Japan receives a score of -1.

*Analyst: Anju Xing*

**Korea: -1**

Korea has not complied with its commitment to rationalize and phase out inefficient fossil fuel subsidies, over the medium term, while recognizing the need to support the poor.

No actions were registered during the compliance period.

Korea has not phased out inefficient subsidies that encourage wasteful consumption in the medium term, nor supported the poor. Thus, Korea receives a score of -1.

*Analyst: Anju Xing*

**Mexico: 0**

Mexico has partially complied with its commitment to rationalize and phase out inefficient fossil fuel subsidies, over the medium term, however it has failed to support the poor.

On 1 January 2017, the government raised gasoline prices between 14 and 20 per cent across the country, as part of a liberalization program aimed at gradually bringing prices up to market level. According to the Finance Ministry, the average price for gasoline climbed 14 per cent to MXN15.99 pesos per litre, the price for premium gasoline increased 20 per cent to MXN17.79 pesos per litre and diesel rose 16.5 per cent to MXN 17.05 pesos per litre.<sup>848</sup> This is the largest price increase for gasoline since November 1998. Price caps will coexist with free prices during next year as the liberalization advances throughout the country. Capped prices will be different depending on the region and they will be first adjusted monthly, and in later stages weekly, and then daily, to ease the transition to free prices.<sup>849</sup>

Mexico has taken steps to decrease fossil fuel subsidies however, it has not supported the poor. Thus, Mexico receives a score of 0.

*Analyst: Laila Kanji*

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<sup>848</sup> Mexico Gasoline Prices to Surge by the Most in Two Decades, Bloomberg, 27 December 2016, Access Date: 12 January 2017 <https://www.bloomberg.com/news/articles/2016-12-27/mexico-gasoline-prices-to-surge-by-the-most-in-two-decades>

<sup>849</sup> Mexican Government to Bump Up Gasoline Prices in January, Wall Street Journal, 27 December 2016, Access Date: 12 January 2017 <http://www.wsj.com/articles/mexican-government-to-bump-up-gasoline-prices-in-january-1482854130>

### **Russia: 0**

Russia has partially complied with its commitment to rationalize and phase out inefficient fossil fuel subsidies, over the medium term, while recognizing the need to support the poor.

On 1 February 2017, the Russian Ministry of Energy published a draft Russian Energy Strategy for the Period until 2035. It provides for gradual phasing out of cross-subsidization of gas supplies in different Russian regions and groups of consumers during the first phase of the strategy implementation (until 2020). It also provides for gradual phasing out of cross-subsidization in electric energy through setting market prices. The draft strategy mentions the need of introducing specific subsidies for poor and disadvantaged groups of population. However, it does not contain any specific targets on subsidies.<sup>850</sup>

On 30 September 2016, at the Sochi International Investment Forum Russian Minister of Energy Alexander Novak, outlined some elements of a new model of heat supply system in Russia. The model is based on the mechanism of single heat providing entity in each heat providing system as well as a new more market dependable approach to price determination. The new model will ensure economic growth and additional tax flows to the budget in the amount of RUB800 billion up to 2025. According to the Minister it will exceed the amount of subsidies needed to compensate the increase of prices for citizens.<sup>851</sup>

On 10 October 2016, Ministers of Energy of Russia and Turkey signed an agreement to construct the TurkStream natural gas pipeline between the two countries.<sup>852</sup> The agreement includes a gas price discount mechanism for Turkey.<sup>853</sup>

Russia has taken some actions to rationalise and phase-out fossil fuel subsidies over the medium-term but no actions to support the poor have been registered during the compliance period. Thus, Russia receives a score of 0.

*Analysts: Ben Windeler & Mark Rakhmangulov*

### **Saudi Arabia: -1**

Saudi Arabia has not complied with its commitment to rationalize and phase out fossil fuel subsidies over the medium-term however, it has failed to support the poor.

No actions were registered during the compliance period.

Saudi Arabia has not phased out inefficient subsidies that encourage wasteful consumption in the medium term, nor supported the poor. Thus, Saudi Arabia receives a score of -1.

*Analyst: Bojana Radan*

### **South Africa: -1**

South Africa has not complied with its commitment to rationalize and phase out fossil fuel subsidies over the medium-term and it has failed to support the poor.

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<sup>850</sup> Russian Energy Strategy for the Period until 2035, Ministry of Energy of Russia 21 September 2016.

<http://minenergo.gov.ru/node/1920>

<sup>851</sup> Alexander Novak's Presentation at the Sochi International Investment Forum, Ministry of Energy of Russia 30 September 2016. <http://minenergo.gov.ru/node/6133>

<sup>852</sup> Meeting with President of Turkey Recep Tayyip Erdogan, President of Russia 10 October 2016. Date of Access: 20 February 2017. <http://en.kremlin.ru/events/president/news/53065>

<sup>853</sup> Meeting with President of Turkey Recep Tayyip Erdogan, President of Russia 10 October 2016. Date of Access: 20 February 2017. <http://en.kremlin.ru/events/president/news/53065>

No actions were registered during the compliance period.

South Africa has not phased out inefficient subsidies that encourage wasteful consumption in the medium term, nor supported the poor. Thus, South Africa receives a score of -1.

*Analyst: Bojana Radan*

**Turkey: -1**

Turkey has not complied with its commitment to rationalize and phase-out inefficient fossil fuel subsidies, over the medium term, while recognizing the need to support the poor.

On 7 September 2016, the Turkish government promulgated a new law including the provision of investment incentives.<sup>854</sup> These incentives include exemptions from taxes, tariffs, stoppages, and environmental risk assessments as well as subsidies for wages, premiums, and interest.<sup>855</sup> Although the provisions are not sector specific, they are expected to be most relevant to the energy sector,<sup>856</sup> and in particular to act as a public subsidy to the development of new coal power plants.<sup>857</sup>

Turkey has introduced new fossil fuel subsidies and has not phased out inefficient subsidies that encourage wasteful consumption in the medium term, nor supported the poor. Thus, Turkey receives a score of -1.

*Analyst: Ben Windeler*

**United Kingdom: -1**

The United Kingdom has not complied with its commitment to rationalize and phase out inefficient fossil fuel subsidies and to recognize the need to support the poor.

On 9 December 2016, the government awarded GBP1.2 billion of subsidised energy contracts through its capacity market auction. GBP130 million of these subsidies were awarded to coal plants,<sup>858</sup> up from GBP80 million awarded in the 2015 auction.<sup>859</sup> Between GBP26 million and GBP187 million was awarded to diesel in this year's auction,<sup>860</sup> compared to approximately GBP180 million in 2015's auction.<sup>861</sup>

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<sup>854</sup> New Wave Of Investment Incentives In Turkey. Mondaq 26 September 2016. Date of Access: 23 December 2016. <http://www.mondaq.com/turkey/x/530358/Government+Contracts+Procurement+PPP/New+Wave+Of+Investment+Incentives+In+Turkey>

<sup>855</sup> Turkish coal plants in line for public subsidies. The Guardian 6 September 2016. Date of Access: 23 December 2016. <https://www.theguardian.com/environment/2016/sep/06/turkish-coal-plants-in-line-for-public-subsidies>.

<sup>856</sup> New Wave Of Investment Incentives In Turkey. Mondaq 26 September 2016. Date of Access: 23 December 2016. <http://www.mondaq.com/turkey/x/530358/Government+Contracts+Procurement+PPP/New+Wave+Of+Investment+Incentives+In+Turkey>

<sup>857</sup> Turkish coal plants in line for public subsidies. The Guardian 6 September 2016. Date of Access: 23 December 2016. <https://www.theguardian.com/environment/2016/sep/06/turkish-coal-plants-in-line-for-public-subsidies>.

<sup>858</sup> Old coal beats new gas for subsidy cash to keep the lights on, Telegraph (London) 9 December 2016. Date of Access: 9 January 2017. <http://www.telegraph.co.uk/business/2016/12/09/old-coal-beats-new-gas-subsidy-cash-keep-lights/>

<sup>859</sup> UK Capacity Market Results: Is the Capacity Market slowing UK decarbonisation?, Sandbag (Londong) 11 December 2015. Date of Access: 10 January 2017. <https://sandbag.org.uk/wp-content/uploads/2016/12/Sandbag-CM-analysis.pdf>

<sup>860</sup> UK Capacity Market: Initial Analysis, Sandbag (London) 9 December 2016. Date of Access: 10 January 2017. <https://sandbag.org.uk/wp-content/uploads/2016/12/Sandbag-CM-analysis.pdf>

<sup>861</sup> UK Capacity Market Results: Is the Capacity Market slowing UK decarbonisation?, Sandbag (Londong) 11 December 2015. Date of Access: 10 January 2017. <https://sandbag.org.uk/wp-content/uploads/2016/12/Sandbag-CM-analysis.pdf>

The UK continues to subsidize coal and diesel facilities and has not phased out inefficient subsidies that encourage wasteful consumption in the medium term, nor supported the poor. Thus, the UK receives a score of -1.

*Analyst: Chadwick Meyers*

### **United States: -1**

The United States has not complied with its commitment to rationalize and phase-out inefficient fossil fuel subsidies, over the medium term, while recognizing the need to support the poor.

No actions were registered during the compliance period.

The US has not phased out inefficient subsidies that encourage wasteful consumption in the medium term, nor supported the poor. Thus, the United States receives a score of -1.

*Analyst: Nidhi Varma*

### **European Union: -1**

The European Union has not complied with its commitment to rationalize and phase out inefficient fossil fuel subsidies and to recognize the need to support the poor.

On 30 November 2016, the European Commission released a proposal to restructure the EU's energy policies and direct investment to clean energy sources.<sup>862</sup> Within the plan is an investigation into which fossil fuel subsidies persist throughout member states in order to determine the best way to reform energy markets.<sup>863</sup>

The proposal also includes reforms directed towards energy poverty, calling on member states to build long-term strategies that address energy poverty in low-income households. The proposal includes legislative safeguards to protect low-income consumers from having their energy disconnected as well as the establishment of an Energy Poverty Observatory that will “provide better data on the problem and its solutions as well as to help Member States in their efforts to combat energy poverty.”<sup>864</sup>

The EU has not phased out inefficient subsidies that encourage wasteful consumption in the medium term, nor supported the poor. Thus the EU receives a score of -1.

*Analyst: Chadwick Meyers*

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<sup>862</sup> Clean Energy for All Europeans – unlocking Europe's growth potential, European Commission (Brussels) 30 November 2016. Date of Access: 7 January 2017. [http://europa.eu/rapid/press-release\\_IP-16-4009\\_en.htm](http://europa.eu/rapid/press-release_IP-16-4009_en.htm)

<sup>863</sup> Clean energy for all Europeans, Communication from the Commission to the European Parliament, the Council, the European Economic and Social committee, the Committee of the Regions and the European Investment Bank (Brussels) 30 November 2016. Date of Access: 10 January 2016.

[http://ec.europa.eu/energy/sites/ener/files/documents/com\\_860\\_final.pdf](http://ec.europa.eu/energy/sites/ener/files/documents/com_860_final.pdf), p. 12.

<sup>864</sup> Clean energy for all Europeans, Communication from the Commission to the European Parliament, the Council, the European Economic and Social committee, the Committee of the Regions and the European Investment Bank (Brussels) 30 November 2016. Date of Access: 10 January 2016.

[http://ec.europa.eu/energy/sites/ener/files/documents/com\\_860\\_final.pdf](http://ec.europa.eu/energy/sites/ener/files/documents/com_860_final.pdf), p. 11.