

Definition of a fossil fuel subsidy

Section 33

The IEA define a subsidy as:

Any government action that concerns primarily the energy sector that lowers the cost of energy production, raises the price received by energy producers or lowers the price paid by energy consumers. (Known as the price-gap approach)

When giving examples of possible types of subsidies under this definition the IEA identifies: Direct financial transfer, preferential tax treatment, trade restrictions, energy related services provided by government at less than full cost, regulation of the energy sector.

The OECD defines a subsidy as:

Any measure that keeps prices for consumers below market levels, or for producers above market levels or that reduces costs for consumers and producers.

In the report compiled by the International Organisations for the Toronto Leaders' Summit, the IEA explained the price-gap approach as follows:

The IEA analysis of consumption subsidies used the price-gap approach. For a given product, the price gap is the difference between a reference price and the actual retail (end-use) price. For net importing countries, reference prices were based on the import parity price: the price of a product at the nearest international hub adjusted for quality differences and plus the cost of freight and insurance to the importing country, plus the cost of internal distribution and marketing and any value-added tax (VAT). For net exporting countries, reference prices were based on the export parity price: the price of a product at the nearest international hub adjusted for quality difference, minus the cost of freight and insurance back to the exporting country, and plus the cost of internal distribution and marketing and any value-added tax. To evaluate the subsidies for fossil-fuel inputs into the power generation sector, electricity reference prices were based on annual average-cost pricing for each country (weighted by the levels of output of each generating option). These were determined using reference prices for fossil fuels, annual average fuel efficiencies, and transmission and distribution and other costs. To avoid over-estimating subsidy levels in the power-generation sector, electricity reference prices were capped at the levelized cost of a combined-cycle gas turbine (CCGT) plant.