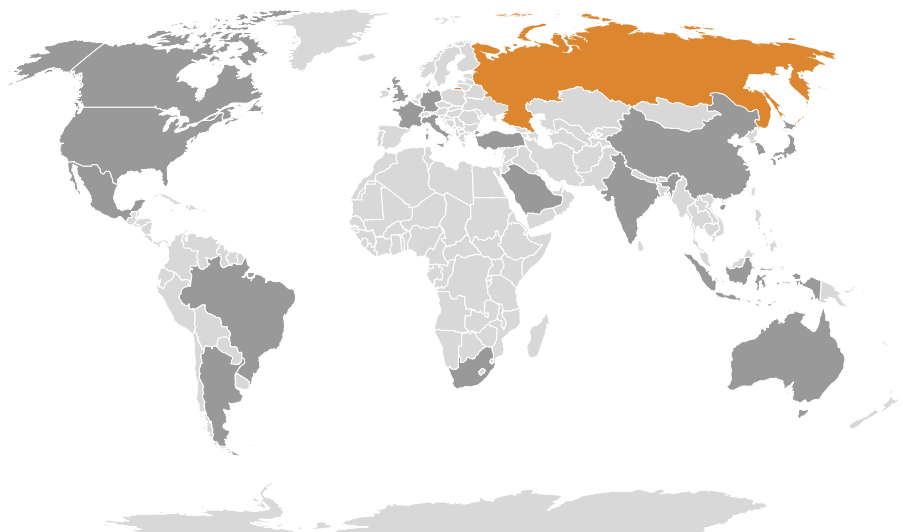




G20 subsidies to oil, gas and coal production: Russia

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Argentina
Australia
Brazil
Canada
China
France
Germany
India
Indonesia
Italy
Japan
Korea (Republic of)
Mexico
► **Russia**
Saudi Arabia
South Africa
Turkey
United Kingdom
United States

This country study is a background paper for the report **Empty promises: G20 subsidies to oil, gas and coal production** by Oil Change International (OCI) and the Overseas Development Institute (ODI). It builds on research completed for an earlier report **The fossil fuel bailout: G20 subsidies to oil, gas and coal exploration**, published in 2014.

For the purposes of this country study, production subsidies for fossil fuels include: national subsidies, investment by state-owned enterprises, and public finance. **A brief outline of the methodology can be found in this country summary.** The full report provides a more detailed discussion of the methodology used for the country studies and sets out the technical and transparency issues linked to the identification of G20 subsidies to oil, gas and coal production.

The authors welcome feedback on both this country study and the full report to improve the accuracy and transparency of information on G20 government support to fossil fuel production.

A Data Sheet with data sources and further information for Russia's production subsidies is available at:
<http://www.odi.org/publications/10078-g20-subsidies-oil-gas-coal-production-russia>

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odi.org

Country Study
November 2015

Background

Russia holds significant fossil fuel reserves, including as of 2014, 6.1% of the world's oil and 17% of the world's gas reserves (BP, 2015). Russia also holds the world's largest shale oil reserves and the ninth largest reserves of shale gas (EIA, 2013). In 2014, it was the third largest producer of oil and second largest gas producer globally (BP, 2015). The industry contributes heavily to the country's economy: in 2014 the revenue from the oil and gas industry (\$196 billion) represented more than half of the Federal Government's budget revenue and accounted for more than 10% of GDP (Minfin, 2015b).

Oil and gas reserves in Russia are located both onshore and offshore with exploratory drilling recently begun in previously un-accessed regions, including offshore Arctic (Gerasimchuk, 2012). Russia's oil and gas industry includes both state-owned and private companies. Five companies control more than 75% of Russia's oil production (if their share in joint ventures is taken into an account) with the state-controlled Rosneft alone producing about 40%. Overall, more than half the oil production is directly controlled by the state (Henderson, 2015). Gazprom (50.3% state-owned) dominates the upstream natural gas sector, delivering approximately 69% of total gas output in 2014 (Gazprom, 2014a).

Despite holding 18% of the world's proven coal reserves (157 gigatonnes (Gt)), Russia accounted for only 4.3% of the global total production in 2014 (BP, 2015). A primarily privately funded \$132 billion programme aims to modernise the sector and increase Russia's coal production significantly from 2014 to 2030 (GRF, 2014a). Investment is driven in part by a desire to increase exports and diversify energy supplies, but it should also be viewed alongside estimates that domestic energy consumption will grow by between 45% and 65% between 2005 and 2030 (ME, 2010).

The last decade has also seen significant restructuring in the Russian electricity sector as fossil-fuelled power production assets (which provided 67% of electricity in 2012) were privatised while nuclear and hydropower remain under state control. The sector was also unbundled, though transmission assets remain owned and regulated by the state (IEA, 2015; EIA, 2015).

The Ministry of Energy (ME) and the Ministry of Natural Resources and the Environment (MNRE) are the primary governmental bodies responsible for overseeing the exploration, extraction and use of fossil fuels (King and Spalding, 2012).¹ The Federal Agency for Subsoil Use (Rosnedra) sits within MNRE and is involved in all aspects of exploration for and production of fossil fuels from the sub-surface. ME includes a number of departments that are dedicated to individual fossil fuels (MNRE, 2004) and is charged with a number of objectives, including

increasing energy efficiency and competitiveness in the sector and, notably, to 'strengthen Russia's position in the global energy markets' (ME, 2013b). Alongside measures to reduce Russia's energy intensity, the 2013–2018 plan for ME aims to increase Russia's hydrocarbon production by increasing the recovery rate of oil (ME, 2013a). In 2014, a plan was approved at the federal level for stimulating hydrocarbon production, which calls for the implementation of administrative and legislative measures and infrastructure projects to achieve its goals by 2020.

National subsidies

The Federal Government, through MNRE, directly funds geological and seismic studies to explore and prospect for hydrocarbon resources, and shares the findings with any interested companies free of charge. The new 'Replacement of Mineral Reserves, Subsoil Exploration' programme began in 2014 and aims to provide sub-surface geological information to ensure the economy is sustainably supplied with mineral resources (Order #436 of the Government of the Russian Federation (GRF)). It involves a special focus on hydrocarbons, which constitute about 50% of the programme outlays. During 2013 and 2014 the Federal Budget allocated approximately \$798 million and \$20 million in exploration for oil and gas, and coal, respectively. In 2013 \$58 million of this was spent on the early stages of hydrocarbon exploration projects on the continental shelf (MNRE, 2014). At the sub-national level, approximately \$3 million of solid minerals exploration studies were also funded from regional budgets, though the share of expenditure devoted to coal exploration within these was not available (MNRE, 2014).

In 2013 under the 'Exploration and Development of the Arctic' sub-programme, \$8 million was provided from the Federal Government budget to cover capital investment, R&D and environmental impact and pollution prevention studies. The 'Replacement of Mineral Reserves, Subsoil Exploration' programme (described above) then succeeded this in 2014.

Various forms of preferential taxation are also applied to support fossil fuel production. According to the Ministry of Finance, field-based tax privileges amounted to almost \$8 billion (equivalent to 0.4% of GDP) in 2012 (Orlova et al., 2013). The most prominent examples are tax holidays for a series of newly developed onshore and offshore oil fields, which were introduced during the period 2008 to 2011. In particular, the exemption from an extraction tax for these fields was valued in 2013 at approximately \$4.6 billion (RUB 151 billion) (Minfin, 2015), though this has been phased out from 2015. The extraction tax is also waived for super-viscous oil, natural

1 The Russian Subsoil Law designates reserves of 70 million tonnes of oil, 50 billion cubic metres of gas, or reserves located in certain areas to be of 'federal significance', with the government thereby overseeing all aspects of licensing for such deposits (including exploration).

gas used for gas cycling and aspects of coal projects,² at a cost in 2013 of \$821 million, \$24 million and \$23 million, respectively (Minfin, 2015a).

Further measures to reduce extraction tax³ are also available for companies that previously invested in exploration activities for gas and oil fields and for coal mines as well as for mature oil fields. These were estimated to be valued at \$5 billion for 2014 (Minfin, 2012, 2013).

In 2014 the government finally started to phase out exemptions from property tax for trunk oil and gas pipelines (Kazmin, 2012). In 2013 the value of these exemptions was estimated at almost \$3 billion (Minfin, 2015a).

Reductions in export customs duty for oil fields in East Siberia, the Caspian Sea and for the Prirazlomnoe field were estimated to be worth \$2.7 billion in 2014, with equivalent customs duty reductions for super-viscous oil estimated to be worth \$1.6 billion (Minfin, 2013).

In 2015 a number of amendments were made to the tax codes relevant to the production of oil and gas. Alongside the phase-out of geographical exemptions from the Mineral Extraction Tax for new fields, new corrective coefficients were introduced to adjust royalty payments to stimulate extraction from hard-to-produce reserves and depleted fields. This implied that the Mineral Extraction Tax was waived for shale oil deposits to stimulate development, and export duties were reduced for certain types of oil (State Duma, 2015). These changes are forecast to decrease the fiscal burden on various types of oil by between 5% and 25% compared to 2014 values (SDCBT, 2014).

As well as other identified subsidies, special taxation regimes for production-sharing agreements (PSAs) result in significant forgone government revenue. Lower customs duties are estimated to have been worth \$5.5 billion (RUB 182 billion) in 2013 and \$5.4 billion (RUB 217 billion) in 2014, with 90% of this attributed to reductions in

Table 1: Russia's national subsidies to fossil fuel production, 2013–2014 (\$ million except where stated otherwise)

Subsidy	Subsidy type	Targeted energy source	Stage	2013 estimate	2014 estimate	Estimated annual average amount
Customs duties reduction (both import and export) granted for PSAs	Duty reduction	Oil and gas	Extraction	5,491	5,402	5,446
Exemption from mineral extraction tax for newly developed onshore and offshore oilfields	Tax exemption	Oil	Extraction	4,563	N/A	4,563
A lowering coefficient of the extraction tax for oil produced at mature fields (cumulative oil extraction equal to or greater than 80%)	Tax deduction	Oil	Extraction	4,417	4,740	4,578
Property tax exemption for trunk oil and gas pipelines	Tax exemption	Oil and gas	Exploration and extraction	2,675	N/A	2,675
Export customs duty reduction for oilfields in East Siberia, Caspian Sea and Prirazlomnoe	Duty reduction	Oil	Extraction	N/A	2,264	2,264
Other national subsidies (in Data Sheet)						3,285
Total						
Total national subsidies (\$ m)						22,812
Total national subsidies (RUB m)						835,872

Sources and additional data are available in the Data Sheets that accompany each Country Study.

Notes: N/A indicates data was not publicly available at the time of publication. When data is not available for both 2013 and 2014, the two-year average is based on the data for one year only.

2 Including technological losses, previously written-off inventories and coal derived from rock dumps.

3 A lowering coefficient to extraction tax is applied.

export duty (FCS 2015, 2014). Compared to conventional projects, those with PSAs also benefit from lower royalty payments and lower taxes on property, corporate profits and goods imported for the projects (Gerasimchuk, 2012). Unfortunately, these tax benefits and many others mentioned in Gerasimchuk (2012) are difficult to quantify because after reaching the level of cost-recovery and a pre-determined profitability, the projects start sharing part of their hydrocarbon with the government, which is paying part of the taxes in oil and gas. However, it takes a lot of time for the three PSA projects in Russia to reach this stage. For instance, Sakhalin II started production in 1999, but started sharing its oil and gas with the Russian government only in 2012 (Samohvalov, 2012).

Other support measures that reduce a company's tax burden – such as accelerated depreciation allowances, exemption from extraction tax for associated gas and technological losses of oil, condensate and gas incurred during extraction – amounted to more than \$1 billion in 2010 (Gerasimchuk, 2012). More recent estimates are unavailable. However, because the legislative provisions for these tax privileges are still in place, we assume these subsidies are continuing even though their values are not added to the totals.

In addition to exemptions from federal taxation, estimates of total tax benefits to coal projects provided at the regional level amounted to \$51 million in 2013 and \$21 million in 2014 (Minfin, 2012, 2013).

Direct budget support of the downstream sector in the form of equity injections to support modernisation and construction of power lines reached \$243 million in 2013 (no similar support measures were found in 2014) (GRF 2013, 2014). We are unaware of any special taxation regimes that benefit producers in the downstream energy sector except for a property tax exemption with respect to power grids, which was worth more than \$1 billion in 2013 (Minfin, 2015a). These figures are not added to our total estimates of national subsidies because we cannot disaggregate the data for fossil fuel power.

State-owned enterprise investment

As mentioned above, fully state-owned enterprises (SOEs) dominate Russia's oil and gas industries and contribute significantly to the wider economy. Table 2 presents key operational and financial indicators of Russia's largest state-owned companies in the hydrocarbons sector. Gazprom and Rosneft are both vertically integrated companies covering oil and gas exploration and extraction, refining and product marketing. Both companies have large operations in Russia but also implement projects in Algeria, Bosnia and Herzegovina, Bolivia, Brazil, Iraq, Kyrgyzstan, Kazakhstan, Libya, Norway, Romania, Serbia,

Tajikistan, the United Arab Emirates and the United Kingdom (Gazprom, 2014a; Rosneft, 2014a).

Gazprom owns the world's largest natural gas reserves and accounts for 12% of global natural gas production. It produces more than 70% of Russia's natural gas and is also among the top five oil producers in Russia. Gazprom is also the largest owner of power-generating assets, which account for 15% of the country's total installed capacity (Gazprom, 2014a). The government holds more than 50% of Gazprom shares (Gazprom, 2014a; Victor and Sayfer, 2014). According to the company's 2014 *Annual Report*, actual spending on investments, which cover all the company's assets, amounted to \$35.6 billion (RUB 1,427 billion) including \$17.6 billion of capital investments, \$4.3 billion of long-term financial investment and \$13.6 billion on acquisition of non-current assets. In 2014, Gazprom signed a major deal worth \$400 billion with China's National Petroleum Corporation (CNPC) for the supply of more than 1 trillion cubic metres of gas over the next 30 years. As well as investment required by Gazprom to develop the resource, the Russian government is already moving to support the infrastructure to transport the gas, though no quantification of this support is available (Farchy, 2015).

Rosneft is the largest oil producer (40% of total production) and third largest gas producer in Russia and is the world's biggest public oil and gas company by proven reserves (Rosneft, 2014b). The company was the largest Russian taxpayer in 2014 contributing more than \$74 billion to the national revenues (Rosneft, 2014a). In 2014, its investment programme (financed both out of equity and through long-term financial loans) amounted to \$14 billion (RUB 567 billion) including capital expenditure of \$13 billion and equity project financing of \$848 million (Rosneft, 2014a). The company is continuously increasing its investments in exploration activities (\$1.1 billion in 2014) and is the largest developer of Russian continental offshore fields where it holds 46 licences with total hydrocarbon resources of more than 43 billion tonnes of oil equivalent.

Following an arbitration court's decision to seize (the private conglomerate) Sistema's stake in Bashneft in 2014 (Bloomberg, 2014), the company is now largely state-owned (50% owned by the Federal Government and 25% owned by the regional government of Bashkortostan) (Bashneft, 2015). In 2014, Bashneft was responsible for 3.5% of oil production, 7.5% of oil refining and 12% of gasoline production in Russia. In 2014, capital expenditure in the upstream sector amounted to \$902 million (a 140% increase compared to 2013) while capital investments on refining, petrochemical production and marketing amounted to \$289 million (Bashneft, 2014).

Table 2: Russia's state-owned enterprise (SOE) investment, 2013–2014 (\$ million except where stated otherwise)

SOE	Project / investment	Description	Fossil fuel sector	2013	2014	Annual average value
Gazprom	Investment	Total investment programme	Oil and gas, refining, power generation	30,526	35,558	33,042
Rosneft	Investment	Total investment programme	Oil and gas, refining	16,885	14,133	15,509
Bashneft*	Investment	Capital expenditure in the oil and gas and refining	Oil and gas, refining	-	1,111	1,111
Totals						
Total SOE investment (\$ m)				47,411	50,802	49,662
Total SOE investment (RUB m)						1,819,690

Sources and additional data are available in the Data Sheets that accompany each Country Study.

Note: When data is not available for both 2013 and 2014, the two-year average is based on the data for one year only.

*Bashneft became state-owned in 2014.

A large number of smaller enterprises, such as Rosgeologiya (itself an amalgamation of 37 smaller, exploration-specific SOEs), are also government-owned (Gerasimchuk, 2012) though no data on their investment in fossil fuel production was available. The total investment by SOEs in Russia in fossil fuel production averaged \$30 billion per year across 2013 and 2014.

Public finance

Russian state-owned banks and bilateral finance organisations provide significant support to fossil fuels domestically and internationally, including financing for coal projects that include mining, transportation and/or combustion as well as oil and gas projects involving exploration and production, transportation, storage, processing and refining.

By far the two largest financiers during 2013 and 2014 were Sberbank and the Russian Development Bank (Vnesheconombank), which lent \$5.8 billion and \$5.5 billion, respectively, across domestic and international finance. A smaller amount (\$1.8 billion) was lent by Vneshtorgbank (VTB Bank) while the fourth bank, the Export Insurance Agency of Russia (EXIAR), lent just a fraction of that amount (\$0.4 million).

Not included in the total lending figure are loans made by banks that are less than majority state-owned but whose corporate structures allow for significant government influence. For example, Gazprombank, which is 47% owned by other state-owned enterprises, made a number of large fossil fuel loans in 2013 and 2014 including an eight-year, \$1 billion loan in November 2013 to Petroleos de Venezuela to expand oil field production (Gazprombank, 2013; Nelthorpe, 2013).

The projects analysed may not represent the full spectrum of Russian public finance for fossil fuel production. Relatively limited information was found in publicly available data sources and the data presented is drawn almost completely from news releases issued by the lending institutions themselves.

Domestic

In 2013 and 2014, the Russian Development Bank, Sberbank and VTB Bank provided \$11.4 billion in financing for domestic fossil fuel production, for an annual average of \$5.7 billion (RUB 209.7 billion). The Russian Development Bank's financing focused on upstream coal projects, while Sberbank's lending centred around oil and gas, and the VTB Bank provided financing across the oil, gas and coal sectors.

Some of the lending that has been included in the tally consists of 'credit lines' and 'credit facilities' that may suggest potential future funding as opposed to actually approved loans. These include, for example, three credit lines totalling \$2.5 billion signed by the Russian Development Bank in October 2013 to support development of the Elginsk coal deposit in Russia.

Two projects totalling more than \$1 billion in financing were identified but not included in the totals because they went to Gazprom, and its investments are covered under the section on state-owned enterprises.

Further, the Russian banks may have also played an indirect role in other uncounted lending for fossil fuel development or provided funding for projects that may or may not have included a fossil fuel component. For example, in July 2013, Sberbank executed two lines of credit totalling almost \$225 million to the Moscow Integrated Power Company – but the component for fossil fuel-based power production, if any, is unclear (Sberbank, 2013).

International

For 2013 and 2014, \$1.7 billion was found to have been lent overseas by the four Russian state-owned banks, for an average annual financing of \$846 million (RUB 31 billion).

Of the international finance, five projects were in Kazakhstan and Belarus (i.e., members of the Eurasian Economic Union). Only five countries outside Russia's formal zone of influence – Ecuador, Slovakia, Tajikistan, Bosnia-Herzegovina and India – appear to have been beneficiaries of Russian bilateral finance for coal or oil and gas development.

As with domestic financing, it appears that Russian banks may have also played an indirect role in other uncounted lending for fossil fuel production. VTB Bank is listed as an 'adviser' in the January 2013 financing (amount unclear) of an expansion of the Caspian Pipeline Consortium's oil pipeline. Likewise, in June 2014, a loan of \$1.2 billion was made by Sberbank, and partially insured by EXIAR, to Slovakia's largest energy company

– Slovenske Elektrarne; again, the share linked to fossil fuel production is uncertain (IJ Global, 2014).

Russia also contributed an annual average of \$118 million (RUB 4.3 billion) to fossil fuel production in 2013 and 2014 through its shares in the European Bank for Reconstruction and Development and the World Bank Group, which range from 0.3% to 4.3% depending on the institution (EXIAR, 2014; Ostroukh, 2014; CIJ Journal, 2014).

Finally, Russia holds 20% of shares in the New Development Bank and 6.7% of shares in the Asian Infrastructure Investment Bank, two new international institutions that could be potential sources of public finance for fossil fuel production in the future. The New Development Bank is scheduled to begin operations in 2016, with \$50 billion in capital expected to rise to \$100 billion over time. The Asian Infrastructure Investment Bank is also scheduled to begin operations in 2016, with \$100 billion in total capital.

Table 3: Russia's public finance for fossil fuel production, 2013-2014 (\$ million except where stated otherwise)

Institution name	Coal mining	Coal-fired power	Upstream oil and gas	Oil and gas pipelines, power plants and refineries	Multiple or unspecified fossil fuels	Total fossil fuel finance 2013 & 2014	Annual avg. fossil fuel finance
Domestic							
Russian Development Bank	5,004	-	-	-	-	5,004	2,502
Sberbank	-	-	2,940	1,750	-	4,690	2,345
VTB Bank	1,333	43	27	348	-	1,751	875
Subtotal domestic	6,337	43	2,967	2,098	-	11,444	5,722
International							
Sberbank	-	21	255	690	96	1,061	531
Russian Development Bank	-	400	-	140	-	540	270
VTB Bank	-	-	33	33	-	66	33
Government of the Russian Federation	-	25	-	-	-	25	12
EXIAR	-	-	-	0.4	-	0.4	0.2
Multilateral development banks	0	17	81	138	-	236	118
Subtotal international	0	463	369	1,001	96	1,928	964
Totals							
Total public finance (\$ m)							6,686
Total public finance (RUB m)							244,995

Sources and additional data are available in the Data Sheets that accompany each Country Study.

Private companies

Private upstream oil and gas companies

State-owned oil companies dominate the upstream oil and gas sector leading production and capital expenditure as described in the section above. Nonetheless, in 2014, oil and gas production by the 10 largest private companies totalled 1.6 billion barrels and 115 billion cubic metres, respectively. While Russia's proven oil and gas reserves are falling, exploration expenditure in the country is increasing as companies search for additional resources. In 2014, all of the top 10 private companies increased their capital expenditures in exploration compared to the previous year, which in total amounted to \$1.3 billion (Rystad, 2015), while total operating expenditure and capital expenditure totalled \$40 billion in 2014. Russia's 2030 Energy Strategy includes provisions for \$491 billion to \$501 billion to be spent between 2009 and 2030 on capital investment in exploration and extraction of oil and \$186 billion to \$194 billion on gas production (ME, 2010).

Private midstream/downstream oil and gas companies

The midstream/downstream oil and gas sector is not covered separately to avoid double counting, as Russian oil and gas companies are vertically integrated in most

cases. There are 40 oil refineries in Russia with a total refining capacity of 5.5 million barrels per day. The largest refinery operator is Rosneft (an SOE), which owns nine major refineries, while privately owned Lukoil comes next, operating four refineries (EIA, 2015).

Private coal companies

Private companies conduct the vast majority of coal mining in Russia (Kuznetsov, 2013). In many cases coal assets were privatised by metallurgical and coal-energy holdings; 16 holding companies are now responsible for almost 80% of coal production in Russia (Sliviyak and Podosenova, 2013). The Siberian Coal Energy Company (SUEK) is one of the largest coal companies in the world as well as being Russia's largest vertically integrated coal producer, with assets in Siberia and the far east of the country. In 2014, the company's revenue from international sales was \$3.6 billion while revenue from sales in Russia totalled \$1.3 billion (SUEK, 2014).

Private electricity companies (fossil-fuel based)

Private electricity companies are not included in this analysis, as we are unaware of any subsidies that benefit fossil fuel power production, beyond those to distribution and transmission outlined above.

Table 4: Top private upstream oil and gas producers in Russia, 2013-2014

Company	Headquarter country	Oil production (million barrels in country)		Gas production (billion cubic metres in country)		Sum of operating expenditure & capital expenditure, including exploration expenditure (\$ million)		Profitability (from country operations, as measured by free cash flow, \$ million)	
		2013	2014	2013	2014	2013	2014	2013	2014
Lukoil	Russia	627	614	13	13	16,010	15,806	4,192	3,056
Surgutneftegas	Russia	451	470	9	8	10,092	9,264	4,005	4,547
Novatek	Russia	48	58	64	69	6,160	7,251	339	92
Tatneft	Russia	191	187	1	1	2,227	2,298	1,671	1,325
Slavneft	Russia	95	91	1	1	1,851	1,602	272	358
Russneft	Russia	71	86	2	2	989	1,126	918	970
Wintershall	Germany	8	9	11	11	940	959	909	1,018
Shell	Netherlands	37	35	4	4	1,014	1,032	1,246	1,088
E.ON AG	Germany	1	1	6	6	490	482	540	553
Megionneftegaz	Russia	29	29	0	0	682	608	12	44

Source: Rystad Energy, 2015.

Table 5: Top 10 private coal producers by production and profit in Russia, 2013–2014

Company	Headquarter country	Coal production (million tonnes)	Profit (from country operations, if possible)	Countries in which the company operates (if global profit)
Siberian Coal Energy Company SUEK	Russia	99	Gross profit \$598 million	30 countries
kuzbass razrez UGMK	Russia	44*	Unknown	
SDS-Ugol	Russia	29	Unknown	
Evrast Group	United Kingdom	21	Unknown. Sales of \$1.32 billion	Russia, South Africa, Ukraine
Mechel	Russia	23	Unknown. Integrated across countries and industries.	
En+ Group	Russia	13	Unknown. Sales of \$355 million	
Severstal	Russia	6	Unknown. Sales of \$546 million	
Sibuglemt	Russia	11	Unknown	
Kuzbasskaya Toplivnaya Company KTK	Russia	10*	Unknown	
Russian Coal	Russia	8	Unknown	

Source: SUEK, 2014; ME, 2015; SDS-Ugol, n.d.; Evrast Plc, 2015; Mechel, 2015; En+ Group, 2015; Severstal, 2015; Sibuglemt, 2013; Russian Coal, 2015.

*2013 data

Methodology

(for detailed methodology see Chapter 3 of main report)

This report compiles publicly available information on G20 subsidies to oil, gas and coal production across G20 countries in 2013 and 2014. It provides a baseline to track progress on the phase-out of such subsidies as part of a wider global energy transition. It uses the following terms and their definitions.

Production subsidies

Government support for fossil fuel production. For the purpose of this country study, production subsidies include national subsidies, investment by state-owned enterprises (SOEs) (domestic and international) and public finance (domestic and international) specifically for fossil fuel production.

Fossil fuel production

Production in the oil, gas and coal sectors. This includes access, exploration and appraisal, development, extraction, preparation, transport, plant construction and operation, distribution and decommissioning. Although subsidies for the consumption of fossil fuels can support their production, this report excludes such subsidies as well as subsidies for the consumption of fossil fuel-based electricity.

National subsidies

Direct spending, tax and duty exemptions and other mechanisms (such as forms of capacity markets) provided by national and sub-national governments to support fossil fuel production. Normally, the value assigned for a national subsidy is the number provided by the government's own sources, by the OECD, or by an independent research institution.

State-owned enterprise (SOE) investment

A SOE is a legal entity created by a government to undertake commercial activities on its behalf. SOEs can be wholly or partially owned by governments.

It is difficult to identify the specific component of SOE investment that constitutes a subsidy, given the limited publicly available information on government transfers to SOEs (and vice-versa), and on the distribution of investment within their vertically integrated structures. Therefore, this report provides data on total investment by SOEs in fossil fuel production (where this information is available from the company), which are presented separately from national subsidies.

For the purpose of this report, 100% of the support provided to fossil fuel production through domestic and international investment by an SOE is considered when a government holds >50% of the shares.

Public finance

Public finance includes the provision of grants, equity, loans, guarantees and insurance by majority government-owned financial institutions for domestic and international fossil fuel production. Public finance is provided through institutions such as national and multilateral development banks, export credit agencies and domestic banks that are majority state-owned.

The transparency of investment data for public finance institutions varies. Assessing the portion of total financing that constitutes a subsidy requires detailed information on the financing terms, the portion of finance that is based directly on public resources (rather than raised on capital markets) or that depends on the institutions' government-linked credit rating. Few of the institutions assessed allow public access to this information. Therefore, we report the total value of public finance from majority government-owned financial institutions for fossil fuel production separately from 'national subsidy' estimates.

For the purpose of this report, 100% of the support provided to fossil fuel production through domestic and international financing is considered when a government holds >50% of the shares in the bank or financial institution.

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