



Country case: China

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The process of the peer review

- A peer review was jointly announced by China and the United States in December 2013 – the first ones under the G20.
- **Preparation** - involved high level announcements, discussions of the Terms of Reference, nomination, invitation and establishment of a peer review panel that had members from the United States, Indonesia, Germany, OECD and IMF, chaired by the OECD.
- **Self-review** - produced a self-report to share with the peer review panel; identified nine provisions with proposed reform timeframes, covering three forms of subsidies of direct fiscal transfer, tax preference and subsidies triggered by market control. Three provisions with available cost estimates totalled an annual cost of CNY 96.8 billion (15.42 billion US dollars).
- **Peer review** - in-country visits, discussions with stakeholders and decision makers, rounds of questions and responses by writing and production of a peer review report to report to China/US governments and published in the G20 summit in 2016.

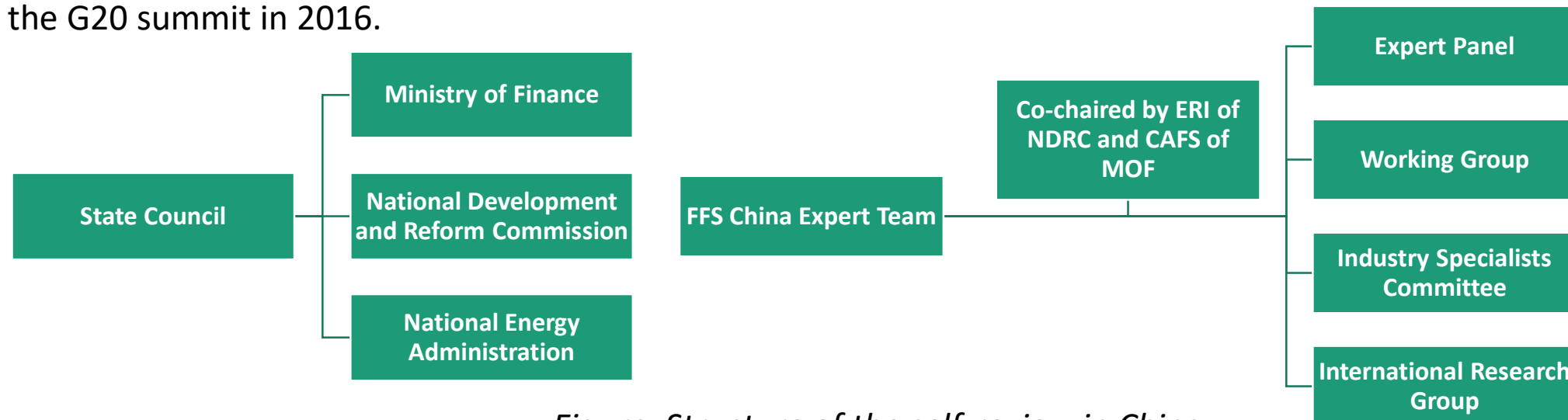


Figure. Structure of the self-review in China

Reform update (after the peer review)

- **A gradual but scheduled withdraw of direct transfer to beneficiaries.** Progress example: a series of subsidies to specific industries derived from petroleum fuels price and tax reform since 2006 was with a cumulative subsidy totalled at CNY 573.4 billion to 2015 (the largest subsidy in the peer review). Now decoupled with the volume of oil consumption and will gradually reduce every year with a benchmark of the 2014 level – from 15% reduction in 2015 to 60% reduction in 2019.
- **Systematic approach to support ongoing broader reform** (supporting reform measures in self-review). Subsidy reform is underpinned by a systematic combination of a comprehensive taxation reform that aims to address environmental externalities and a gradual move toward market-based pricing that promoting efficient allocation of resources. Progress examples: 1) The Environmental Protection Tax Law came into effect in 2018. 2) A comprehensively Resource Tax Reform implemented starting in July 2016 (new ad-valorem resource taxes on fossil fuels). 3) Power transmission and distribution tariff reform implemented in 2015-2017. 4) A new set of interprovincial natural gas transmission tariff came in force since September 2017.
- **Reform beyond the IFFS to serve the reform blueprint of letting market to play a "decisive" role in allocating resources.** Introducing market mechanisms to reflect decreased costs and better targeted policy for cleaner energy. Progress examples: 1) Shale gas extraction subsidies has reduced from CNY 0.4 per cubic meter of output during 2012 to 2015, to CNY 0.3 per cubic meter since 2016 and CNY 0.2 per cubic meter in 2019. 2) Green electricity certificates trading scheme introduced since July 2017. 3) EV subsidies expect a reduction of 20% every two years from the 2016 level through 2017-2020.

Benefits of the peer review

- Better understanding of the needs, methods and best practice of the reform
- Promotes inter-agency coordination and a collective discussion with stakeholders of the reform
- Improve capacity building on policy evaluation, data collection and structure of statistics
- Formation of mutual understanding and good practice for international cooperation
- A starting point and a new angle for decision making evaluation
- Exchange international policy experience on reform challenges. Examples: excessive capacity of coal and thermal power, the need of deepening structural reform that go further beyond direct subsidies, minimising impacts for low income population

Points we considered helpful for an efficient peer review

Preparation

- Find the clear motivation, objective and priorities for the peer review
- Involve high level policy makers

Self- review

- Wide engagement of the stakeholders of FFS reform
- Close interaction with decision makers and the research team
- Knowledge sharing and international discussions

Peer review

- A peer review panel with diversified background, and a good chair
- Efficient country meetings and well planed drafting exchange

General

- There is not a 'one size fits-all' approach for reform or peer review
- Voluntary, flexible and country specific
- Heavy version vs light version
- Tracking and re-evaluate reform after the peer review
- Recognition of challenges and the importance for capacity building

Thank you

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