

## Workshop Report: Reforming Fossil Fuel Subsidies through the WTO and International Trade Agreements

Monday, 22 May 2017 • WTO • Geneva, Switzerland



(L-R): Ambassador **David Walker**, Permanent Representative to the WTO, New Zealand; **Aik Hoe Lim**, Director, Trade and Environment Division, WTO; and **Peter Wooders**, IISD, set the scene.

This report provides a brief summary of the workshop, “**Reforming Fossil Fuel Subsidies through the WTO and International Trade Agreements**,”<sup>1</sup> held on 22 May 2017 at World Trade Organization (WTO) headquarters in Geneva.

Hosted by Climate Strategies, the Stockholm Environment Institute (SEI) and the International Institute for Sustainable Development (IISD), this morning event brought together some 65 policy makers, trade experts, researchers and civil society representatives.

The workshop comprised an introductory “**scene-setting**” segment and two substantive sessions. In Session 1, participants zoomed in on **the various types of fossil fuel subsidies, as well as their varying impacts on international trade**. Session 2 highlighted **different options for addressing fossil fuel subsidies through multilateral, plurilateral and regional agreements**.

This workshop report has been written by the organizers. No acceptance about the contents of the report nor the conclusions drawn should be attributed to any speaker or participant. The workshop was held under the Chatham House Rule whereby what was discussed can be reported but without attribution to any individual or organization.

The organizers would like to express their sincere gratitude presenters and participants for their insightful contributions to this discussion, and look forward to continuing this important conversation going forward.

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<sup>1</sup> This workshop was part of the Climate Strategies project “[Making the International Trading System Work for Climate Change](#)”, funded by the KR Foundation.

## Scene-Setting

**Peter Wooders**, IISD (on behalf of the organizers) and invited guests Ambassador **David Walker**, Permanent Representative to the WTO, New Zealand and **Aik Hoe Lim**, Director, Trade and Environment Division, WTO provided scene-setting remarks.

Speakers highlighted, among other issues, the rationale for fossil fuel subsidy reform (FFSR); ongoing international and national reform efforts; the need for the WTO and the international trade community to play a significant role within reform efforts; transparency as a very good place to start, and the potential of the WTO's Trade Policy Review Mechanism (TPRM) for highlighting the scale of the problem; free trade agreements as an excellent platform to progress FFSR objectives; and the relationship between fossil fuel subsidies and the WTO's 1994 Agreement on Subsidies and Countervailing Measures (ASCM), and discussions in the Committee on Trade and Environment (CTE).

**The Rationale for FFSR:** Speakers described fossil fuel subsidies as a missing piece of the climate change puzzle; highlighted significant potential fiscal, trade, environmental and energy benefits from international reform of fossil fuel subsidies; and noted that resources from fossil fuel subsidies could be redirected towards meeting the Sustainable Development Goals (SDGs).

**Ongoing Reform Efforts:** Presenters highlighted increasing recognition of the potential of FFSR both in many countries' national policies and in international forums and processes, including the Group of 20 (G20), the Asia-Pacific Economic Cooperation (APEC) forum, the SDGs, and the United Nations Framework Convention on Climate Change (UNFCCC).

Encouraging recent examples from Indonesia and India, where FFSR has freed up some US\$15 billion in each country, were discussed. Speakers also noted efforts of the Friends of Fossil Fuel Subsidy Reform (FFFSR) to encourage the G20 and APEC to go beyond current FFSR commitments, including by promoting a phase-out date of 2025.

**Fossil Fuel Subsidies and the ASCM:** Presenters highlighted relevant characteristics of the ASCM for the FFSR debate, including that the Agreement's coverage is limited to measures that meet its definition of "subsidy"; and the importance of bearing in mind the Agreement's "specificity" requirement. It was noted that the ASCM was designed to remedy unfair trade practices; not to address environmental externalities and that its application to fossil fuel subsidies remains untested.

**Fossil Fuel Subsidies and the CTE:** It was highlighted that the CTE has seen several interventions on fossil fuel subsidies, including from the Friends of Fossil Fuel Subsidy Reform group. Various organizations have also presented data during CTE meetings.

Speakers commented that, compared to the ASCM, the CTE's approach to fossil fuel subsidies takes more of an environmental externality perspective, and noted that the Committee tends to look for "win-win-win solutions" that provide environment and development benefits by removing trade restrictions. Some parallels between discussions on FFSR and the CTE's discussions on fisheries subsidies in the 1990s were noted.

Speakers said that while there has recently been more interest in discussing fossil fuel subsidies in the CTE, there remain divergent views about the Committee's mandate in this regard. Participants were invited to consider whether there could be a convergence of views. In this context, the importance of more knowledge of fossil fuel subsidies and their trade impacts was underlined.

## Session 1: Disentangling Fossil Fuel Subsidies and their Trade Effects


This session heard presentations from **Ivetta Gerasimchuk**, IISD and **Ron Steenblik**, Organisation for Economic Co-operation and Development (OECD). It was moderated by **Henry Derwent**, Climate Strategies. Participants discussed the definition, size and scope of fossil fuel subsidies, as well as the climate and trade effects of such measures.

**Definition:** It was noted that in general terms, a subsidy is a policy that reduces the cost of production or the price for consumers. Nevertheless, the word “subsidy” can mean different things depending on the angle taken. Both the OECD and IISD’s Global Subsidies Initiative (GSI) draw on the ASCM definition.

**Size:** Annual expenditure on fossil fuel subsidies has been estimated at US\$320 billion for consumers in developing and emerging countries in 2015, and at US\$100 billion for producer subsidies. While this approach was not pursued during the workshop, it was pointed out that the International Monetary Fund estimates subsidies at US\$5.3 trillion if externalities such as adverse impacts on factors such as health, climate and congestion are considered.

Although fossil fuel subsidy figures have recently dropped as a result of low oil prices, speakers underlined that they remain “much greater” than renewable energy subsidies and carbon tax revenues, and stressed that there is a need to enhance awareness in the international trade community of the scale and impacts of these subsidies.

**Scope:** speakers identified several different types of measures that can be categorized as “fossil fuel subsidies”. Regulated energy prices (induced transfers) and tax breaks account for the bulk of these. Figure 1 offers an overview.



| Fossil-fuel Consumption Subsidies  | Fossil-Fuel Production Subsidies   |
|--|--|
| Fossil fuels exempt from social cost of externalities (non-internalized externalities).                |  |
| Fossil fuels sold below regional or international tax levels.  | Government tax and regulation levels below regional or international levels.       |
| Fossil fuels exempt from VAT, GST and carbon taxes   | Government revenue forgone (reduced and exempt tax rates).                         |
|  | Government provided or purchased goods and services (above or below market rates). |
| Fossil fuels sold below the cost of production, imports and international benchmark price to consumers | Direct transfers or potential direct transfers of funds to producers.              |
|  | Income or price support (above market rate prices for producers).                  |

Sources: updated from GSI (2014)

Figure 1. Source: Ivetta Gerasimchuk, Global Subsidies Initiative/IISD

**Climate Effects:** describing such emissions as a “negative carbon tax”, speakers highlighted that FFSR could reduce greenhouse gas emissions in the order of 10% globally (Nordic Council of Ministers, 2015). They warned against making assumptions about the environmental harm of subsidies based on fuel carbon content only. For instance, since coal is subsidized the least, the benefits of removing coal subsidies are not necessarily greater than those from removing oil and gas subsidies.

**Trade Effects:** Speakers noted that the WTO is likely to be most interested in fossil fuel subsidies with trade impacts. A distinction was drawn between the trade effects of fossil fuel production subsidies, and fossil fuel consumption subsidies.

Regarding **subsidies for fossil fuel production**, it was noted that while the WTO framework is mostly concerned with these subsidies, analysts are only starting to examine their trade effects. Speakers noted that, domestically, some of the subsidies may simply be enriching existing producers, but not materially changing their output levels. However, others may be affecting the rate and timing of development of new fields, as recent reports by [SEI](#) and [GSI and Overseas Development Institute](#) show. The combined effect of production subsidies globally is likely bringing forward production and changing its geographical distribution. Extra production may also end up depressing prices and thus boosting consumption.

Regarding **subsidies for fossil fuel consumption**, it was highlighted that the effects of under-pricing energy increases consumption in the countries in which it occurs. Speakers noted possible trade effects of such measures include:

- To increase imports of the subsidized product, or to reduce the country’s capacity to export that product;
- By driving up demand globally, prices in countries that do not interfere in final prices (except through taxation) may experience prices higher than in the absence of other countries’ consumption subsidies;
- Markets for other (energy-intensive) products may be affected, such as fertilizers, petrochemicals and aluminium; and
- Markets for renewable energy, electrified transport, goods and services related to improving energy efficiency may also be affected. These effects are amplified by the generally higher import tariffs charged on renewable energy.

### Discussion:

Points raised in the ensuing discussion included the following:

- Some fossil fuel subsidies have not been reviewed for long periods, even “for 100 years”;
- Germany as an example of a country where production subsidies have been progressively phased out since the 1990s, with ensuing environmental benefits;
- Experiences with the G20 and APEC peer review processes, including that:
  - countries have much discretion to interpret terms and commitments in a way that best fits their objectives;
  - under their respective peer review processes, the term “inefficient” is undefined under the G20 and contingent on the absence of targeting under APEC;
  - countries have nevertheless submitted information on their fossil fuel subsidies; and
  - sub-national subsidies have not been considered under the G20 and APEC peer review processes.

- The CTE's mandate to discuss fossil fuel subsidies may not differ greatly from its mandate to consider fisheries subsidies, which it began doing in the 1990s;
- The effects of low oil prices on transport could be considered by the International Transport Forum at the OECD;
- International organizations and think tanks could help to improve our understanding of the trade effects of different fossil fuel production subsidies, for example through improved modeling on measuring the subsidy-equivalent values of credit-related support; and
- The need to improve coordination on subsidy quantification to avoid unnecessary duplication.

## Session 2: Fossil Fuel Subsidies and International Trade Agreements: Issues, Options and Avenues to Move Forward

This session heard presentations from **Harro van Asselt**, SEI; **Mark Halle**, IISD; and **Christoph Bellman**, International Centre for Trade and Sustainable Development (ICTSD). **Susanne Dröge**, Stiftung Wissenschaft und Politik, moderated. Participants discussed, *inter alia*: the rationale for considering fossil fuel subsidies at the WTO; possible avenues for addressing FFSR through the WTO and regional trade agreements (RTAs); and challenges and opportunities in this regard. In the discussion, participants considered further avenues for addressing FFSR and concerns related to ensuring energy access for the poor.

**The Rationale for Considering Fossil Fuel Subsidies at the WTO:** Among reasons to address fossil fuel subsidies at the WTO, speakers highlighted: the WTO as an important engine to promote sustainable development; that if we want to address sustainable development we need to address fossil fuel subsidies; SDGs 12 (Responsible consumption and production) and 17 (Strengthen the means of implementation and revitalize the global partnership for sustainable development); the WTO's wide and comprehensive membership; the organization's key role in promoting subsidies rules and disciplines through the ASCM; and the trade impacts of certain fossil fuel subsidies.

As precedent, speakers highlighted that fossil fuel subsidies are addressed in the recent EU-Singapore Free Trade Agreement (Art. 13.11.3); while the Trans-Pacific Partnership addresses fishing subsidies (Art 20.16.5). It was noted that 22% of total fisheries subsidies are provided for fuel used by fishing vessels, although the Partnership does not cover fuel emissions as such.

Speakers also underscored that the question is not, which one international institution should tackle fossil fuel subsidies, but how can they work together in concert.

**Possible Avenues:** Presenters identified a range of possible substantive options, venues and forms through which fossil fuel subsidies could be addressed.

Among possible **substantive options**, they highlighted:

- **Subsidy Type**, e.g. distinguishing subsidies on the basis of: fuel (oil, coal, gas); whether they are provided to producers or consumers; effects (such as on trade or climate change); or a "negative list" developed under the auspices of the WTO;
- **Transparency**, e.g.: strengthened notification requirements; issuing templates or guidance on identification and measurement of subsidies; and capacity-building for measuring and reporting subsidies;
- **Effects of Subsidy Reform**, e.g.: through reference to impacts on affected communities; and safety net provisions; and

- **Flexibility in Implementation**, e.g.: with regard to timing, or for certain countries such as least developed countries (LDCs).

Among possible trade **venues** for addressing fossil fuel subsidies, speakers identified:

- **Within the WTO:** the SCM Committee, the TPRM, the CTE, and the Ministerial Conference or General Council.
- **Outside the WTO:** plurilateral trade agreements and RTAs.

Among different **forms** this approach could take, speakers identified: **a new agreement, an amendment, an authoritative interpretation and a political declaration.**

Options were plotted on two dimensions: level of specificity and how legally binding they would be (Figure 2).

### Mapping options

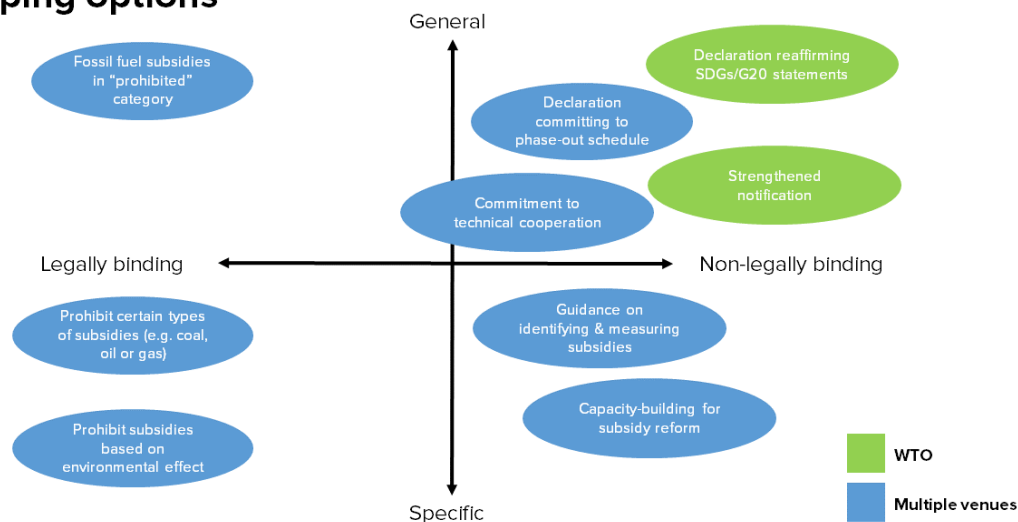


Figure 2. Source: Harro van Asselt, SEI

Among ways to put FFSR on the agenda in the short-term, speakers highlighted: **a political declaration; strengthened notification; commitments to technical cooperation and capacity building; and a plurilateral agreement among WTO members.**

**Enhanced transparency**, including through non-governmental submissions, was identified as a key means to achieve progress while avoiding the complexities of negotiated solutions and disputed settlement. Speakers stressed the need to ensure that neither calls for more data nor long discussions around defining terms would be used to stall international discussions.

Presenters acknowledged that any options would need to be taken up by WTO Members and emphasized their readiness to support this process.

**Challenges and Opportunities:** Among challenges for moving this issue forward, speakers highlighted: achieving consensus at the WTO, including agreeing on definitions; current political obstacles facing RTAs such as concluding the Transatlantic Trade and Investment Partnership; ensuring support from

a critical mass of countries and avoiding the “free rider problem”; proving injury under the ASCM; and the difficulty of introducing new disciplines within the WTO.

Speakers also cautioned against overemphasizing similarities between debates on FFSR and fisheries subsidies reform, noting that negotiations on the latter are ongoing, and underscoring that we do not yet know whether fisheries subsidies reform will be a success story.

On ways forward, speakers suggested that agreement on flexibility or a carve-out for certain countries could help ensure more widespread support for negotiations. They noted existing disciplines could be adjusted, for instance by broadening discussions to also include clean energy – some sort of Energy Sector Agreement, noting that the OECD has hosted discussions for the Steel and Shipping sectors –, including safe harbor exceptions. They also emphasized the need to understand what prevents countries from implementing first-best policies.

Presenters also raised the possibility of redirecting the WTO’s overall approach to ensure compatibility with the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda on financing for development; and the Paris Agreement on climate change. One speaker concluded that if trade is indeed at the service of sustainable development as the preamble of the Agreement Establishing the WTO and SDGs imply, then the trading system would look very different.

### Discussion:

Interventions centered on: further avenues for addressing FFSR; and how to ensure that the energy access needs of the poor are met.

#### Further Avenues for Addressing FFSR:

- **Within existing WTO rules and structure, e.g.:**
  - Research: Members could direct the Economic Research and Statistics Division to conduct research into the impact of FFS on trade and investment, perhaps in cooperation with the IEA;
  - Plurilateral: Introduction of pledge, report and review of non-binding, non-negotiated, country-driven pledges. Members would agree to report to a common template and undergo regular review, and could also agree on reporting their fossil fuel subsidies in the context of Trade Policy Reviews;
  - Plurilateral: Members could negotiate an agreement to reduce or eliminate fossil fuel subsidies by a negotiated amount and agreed timetable. The parallel was drawn with the Environmental Goods Agreement. Members went forward negotiating that agreement without defining what an environmental good was. A similar approach to fossil fuel subsidies could be adopted for fossil fuel subsidies.
  - Negotiated understanding: Members could agree that fossil fuel subsidies are covered by the ASCM, and part of the CTE mandate, through a negotiated declaration comparable to the Declaration on the TRIPS Agreement and Public Health.
- **By changing existing WTO rules, e.g.:**
  - “Specificity” and “actionability” could be redefined to make them more appropriate for considering environmentally harmful subsidies;
  - Rules could consider trade impacts on “unlike” goods.
- **Through RTAs:**
  - As a means to pilot and build experience;

- Such agreements can both address fossil fuel subsidies and simultaneously facilitate trade in sustainable energy;
- A disadvantage may be that smaller trading nations are treated less favourably;
- Institutional mechanisms could be considered to keep the topic on countries' agendas and ensure follow-up.
- **Outside the international trading system:**
  - UNFCCC: bringing FFSR to the fore in the Nationally Determined Contribution (NDC) submission process;
  - The High-Level Political Forum on Sustainable Development and its review of the SDGs;
  - It was noted that the OECD has been a negotiating forum for subsidy disciplines for steel and shipping.
- **Domestically:**
  - It was noted that subsidy reform starts at home, and that international trade agreements can catch up with realities and consolidate reforms;
  - Individual country leadership can help bring issues to the fore internationally.

### Concerns About Energy Access and Meeting the Needs of the Poor:

Interventions highlighted that: 1.2 billion people globally are without access to electricity; ensuring their energy access is a priority; and ending fossil fuel subsidies may make this more difficult for the poorest. Concerns that FFSR will blunt developing countries' competitiveness were raised. Others cited [research by the International Monetary Fund](#), which suggests fossil fuel subsidies do not always target the poor effectively.

Participants highlighted, *inter alia*, the need:

- To bring in voices from the developing world when this issue is discussed, as it concerns global rule making;
- To consider what alternative approaches are available and which works best, subsidies being "one of the tools in the policy toolbox";
- For targeted measures, e.g. involving compensation or ensuring alternative access, to ensure the poor do not suffer from reforms;
- To consider carve-outs for developing countries from the outset, as well as provisions encouraging countries to adopt flanking measures to manage the effects of FFSR, with regional trade agreements representing a possible avenue to pilot these; and
- For more research and dissemination of information on specific subsidy reform efforts that have worked; and on those that have not, in different country contexts. [IISD's case studies](#) on FFSR lessons learned, and a [Nordic Council of Ministers' report](#) on switching from fossil fuel subsidies to renewable energy, were highlighted as relevant resources.



## Further Reading

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- Casier, L., Fraser, R., Halle, M. and Wolfe, R. (2014). [\*Shining a Light on Fossil Fuel Subsidies at the WTO: How NGOs can Contribute to WTO Notification and Surveillance\*](#). Geneva: GSI.
- Coady, D., Flamini, V. and Sears, L. (2015). [\*The Unequal Benefits of Fuel Subsidies Revisited: Evidence for Developing Countries\*](#). Washington, DC: International Monetary Fund.
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- Global Subsidies Initiative (N.D.). [\*Fossil Fuels – At What Cost?\*](#)
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- Gerasimchuk, I., Bassi, A.M., Dominguez Ordonez, C., Doukas, A., Merrill, L. and Whitley, S. (2017). [\*Zombie Energy: Climate Benefits of Ending Subsidies to Fossil Fuel Production\*](#). Geneva and London: GSI and Overseas Development Institute.
- Lang, K., Wooders, P. and Kulovesi, K. (2010). [\*Increasing the Momentum of Fossil-Fuel Subsidy Reform: A Roadmap for International Cooperation\*](#). Geneva: IISD.
- Merrill, L., Bassi, A.M., Bridle, R. and Christensen, L.T. (2015). [\*Tackling Fossil Fuel Subsidies and Climate Change: Levelling the Energy Playing Field\*](#). Copenhagen: Nordic Council of Ministers.
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- Organisation for Economic Co-operation and Development (OECD) and International Energy Agency (IEA) (N.D.). [\*OECD-IEA Analysis of Fossil Fuels and Other Support\*](#).
- Van de Graaf, T. and van Asselt, H. (2017). [\*Introduction to the Special Issue: Energy Subsidies at the Intersection of Climate, Energy, and Trade Governance\*](#). *International Environmental Agreements: Politics, Law and Economics*.

## Annex I: Workshop Agenda

|               |   |
|---------------|---|
| 09:00 - 09:30 | <i>Coffee and registration</i>  |
| 09:30 – 09:35 | <b>Welcoming Remarks</b> <ul style="list-style-type: none"><li>- <b>Peter Wooders</b> (International Institute for Sustainable Development)</li></ul>   |
| 9.35 – 9.45   | <b>Overview of Fossil Fuel Subsidies and Trade</b> <ul style="list-style-type: none"><li>- <b>Ambassador David Walker</b> (Permanent Representative to the WTO, New Zealand)</li></ul>  |
| 9.45 – 9.55   | <b>Overview of Discussions in the WTO</b> <ul style="list-style-type: none"><li>- <b>Aik Hoe Lim</b> (Director, Trade and Environment Division, WTO)</li></ul>  |
| 09:55 - 11:00 | <b>Session 1: Disentangling Fossil Fuel Subsidies and their Trade Effects</b> <p><i>This session will highlight the various types of fossil fuel subsidies, as well as their varying impacts on international trade.</i></p> <p>Moderator:</p> <ul style="list-style-type: none"><li>- <b>Henry Derwent</b> (Climate Strategies)</li></ul> <p>Speakers:</p> <ul style="list-style-type: none"><li>- <b>Ivetta Gerasimchuk</b> (International Institute for Sustainable Development)</li><li>- <b>Ron Steenblik</b> (OECD)</li></ul>   |
| 11:00 – 11:15 | <i>Coffee break</i>   |
| 11:15 – 13:00 | <b>Session 2: Fossil Fuel Subsidies and International Trade Agreements: Issues, Options and Avenues to Move Forward</b> <p><i>This session will highlight different options for addressing fossil fuel subsidies through multilateral, plurilateral and regional agreements.</i></p> <p>Moderator:</p> <ul style="list-style-type: none"><li>- <b>Susanne Dröge</b> (Stiftung Wissenschaft und Politik)</li></ul> <p>Speakers:</p> <ul style="list-style-type: none"><li>- <b>Harro van Asselt</b> (Stockholm Environment Institute/University of Eastern Finland)</li><li>- <b>Mark Halle</b> (International Institute for Sustainable Development)</li><li>- <b>Christophe Bellman</b> (International Centre for Trade and Sustainable Development)</li></ul> |
| 13:00 – 14.00 | <i>Lunch</i>  |