



**Asia-Pacific  
Economic Cooperation**

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## **Fossil Fuel Subsidies and Potential Standstill Commitments**

Submitted by: International Institute for Sustainable Development



**Workshop on Potential Options for a  
Voluntary Standstill on Inefficient Fossil  
Fuel Subsidies  
19 August 2021**



# IISD ENERGY

## Fossil Fuel Subsidies and potential Standstill commitments

IISD Energy  
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# IISD Energy: *Global Subsidies Initiative; Energy Transitions*




### Subsidies: Domestic

Reform fossil fuel subsidies to consumers and producers; analyze and design support measures to low carbon solutions.

### Subsidies: International

Support fossil fuel subsidy reform through data, the *Friends of Fossil Fuel Subsidy Reform* and multilateral groups, processes, and forums.



### Energy Transitions: Domestic

Implement renewable energy, decarbonize transport, and support just transition processes and economic recovery from COVID-19.

### Energy Transitions: International

Redirect energy public finance, close the Production Gap, phase-out coal, implement fossil fuel Just Transitions, and budget for net-zero.

# Contents

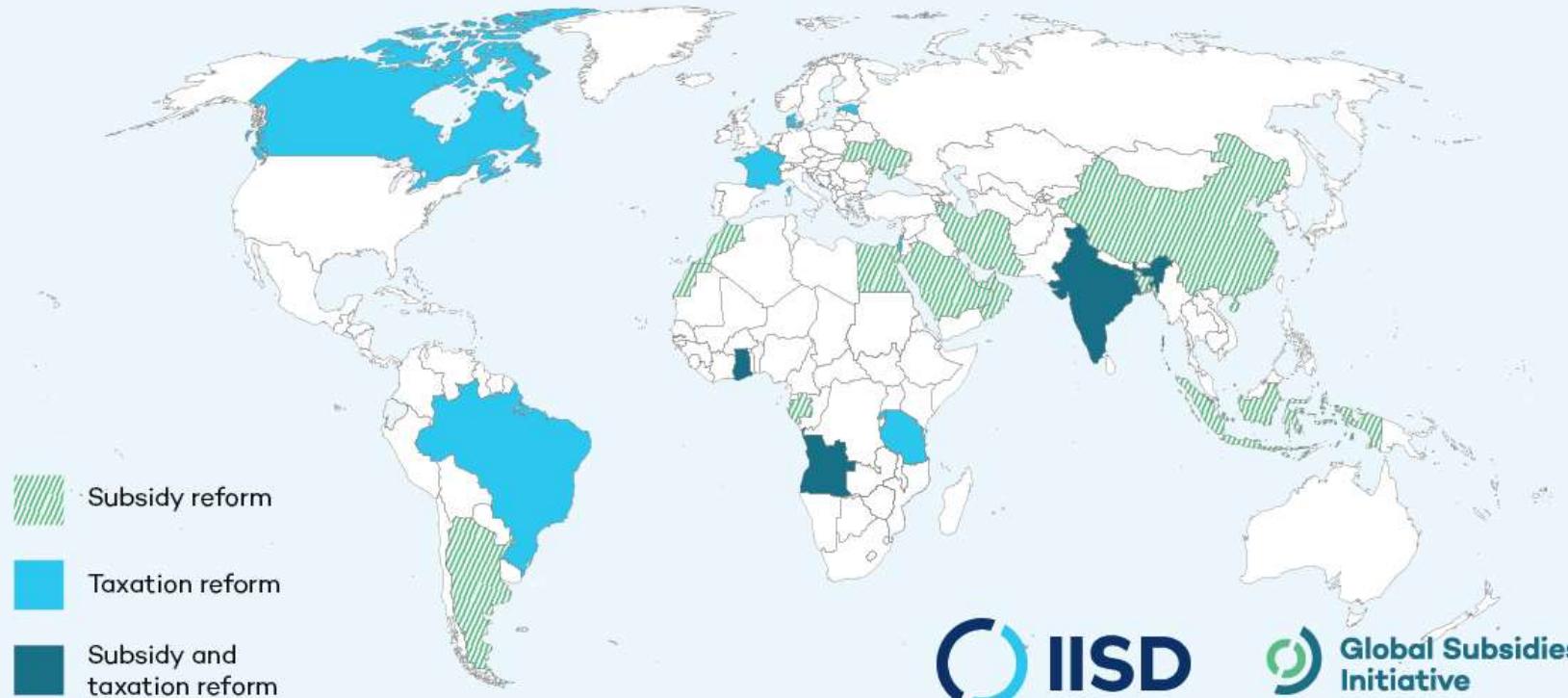


- Why is a Fossil Fuel Subsidies Standstill worthy of consideration?
  - Fossil Fuel Subsidy Reform – Global trends
  - Some key impacts of FFS
  - How an FFS Standstill could fit in with other commitments
- Standstills – their use in international agreements
- What form could Fossil Fuel Subsidies Standstill commitments take?
  1. *Inventory-based* or
  2. *Value-based*

# Reform: at least 53 Economies in past 5 years



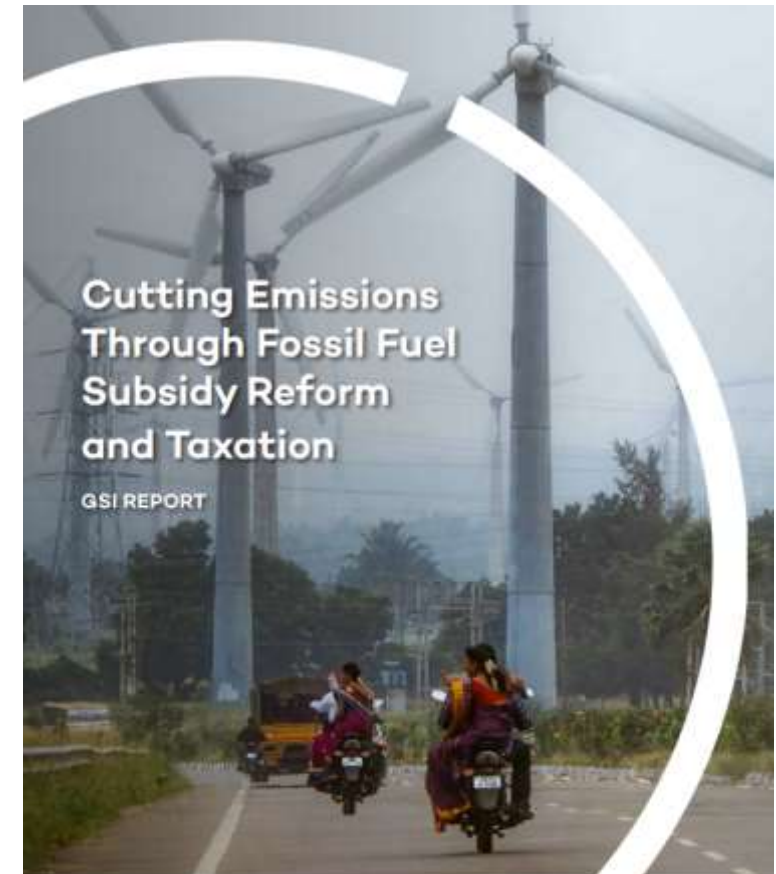
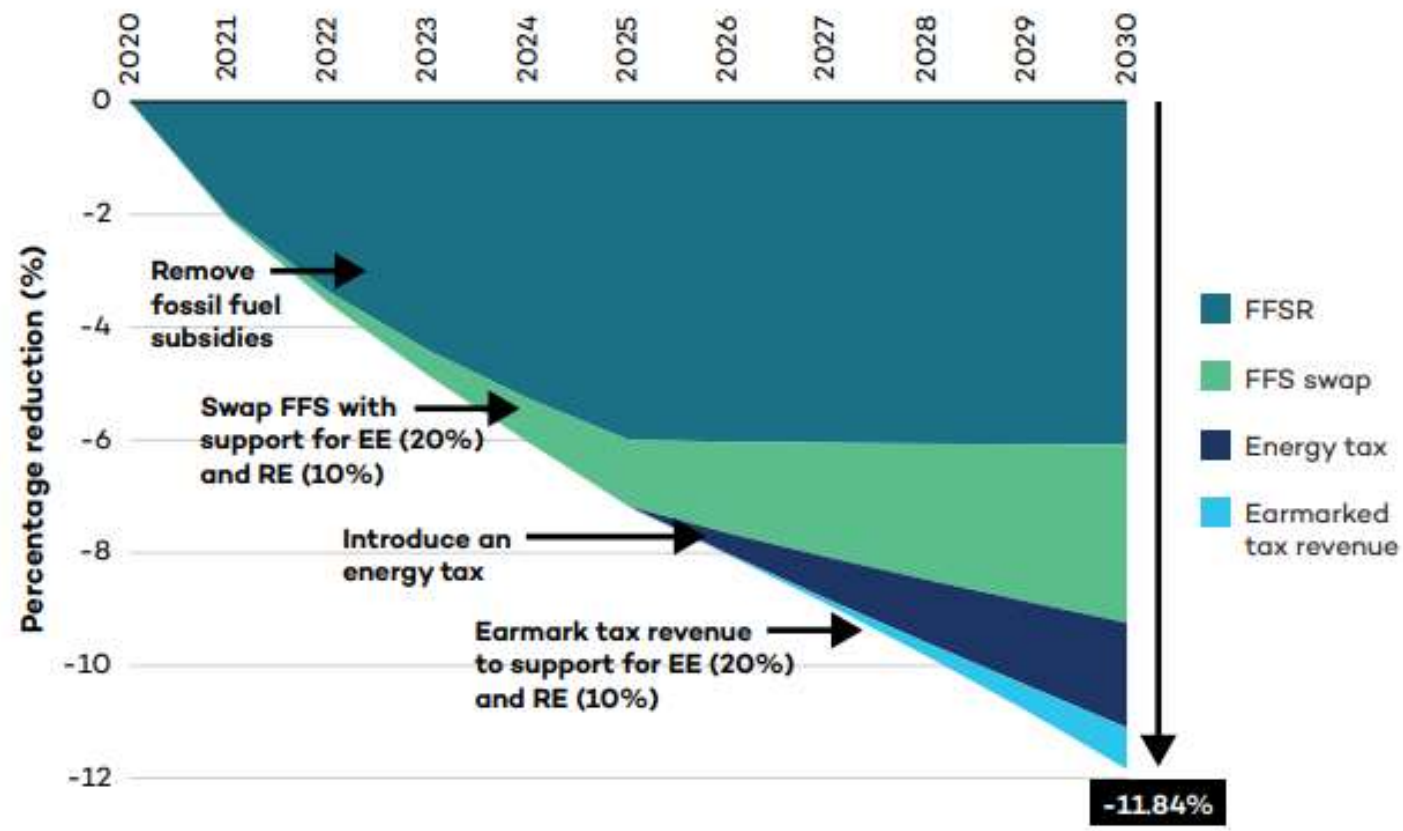
Which countries reformed fossil fuel subsidies and increased fossil fuel taxation in \_\_\_\_\_ **2015**



# FFS Reform would save significant GHGs

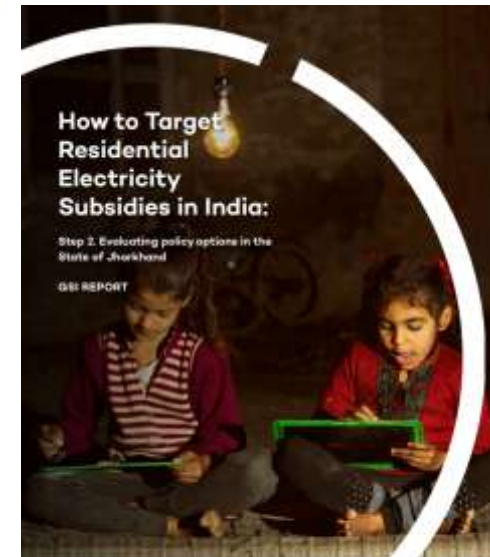
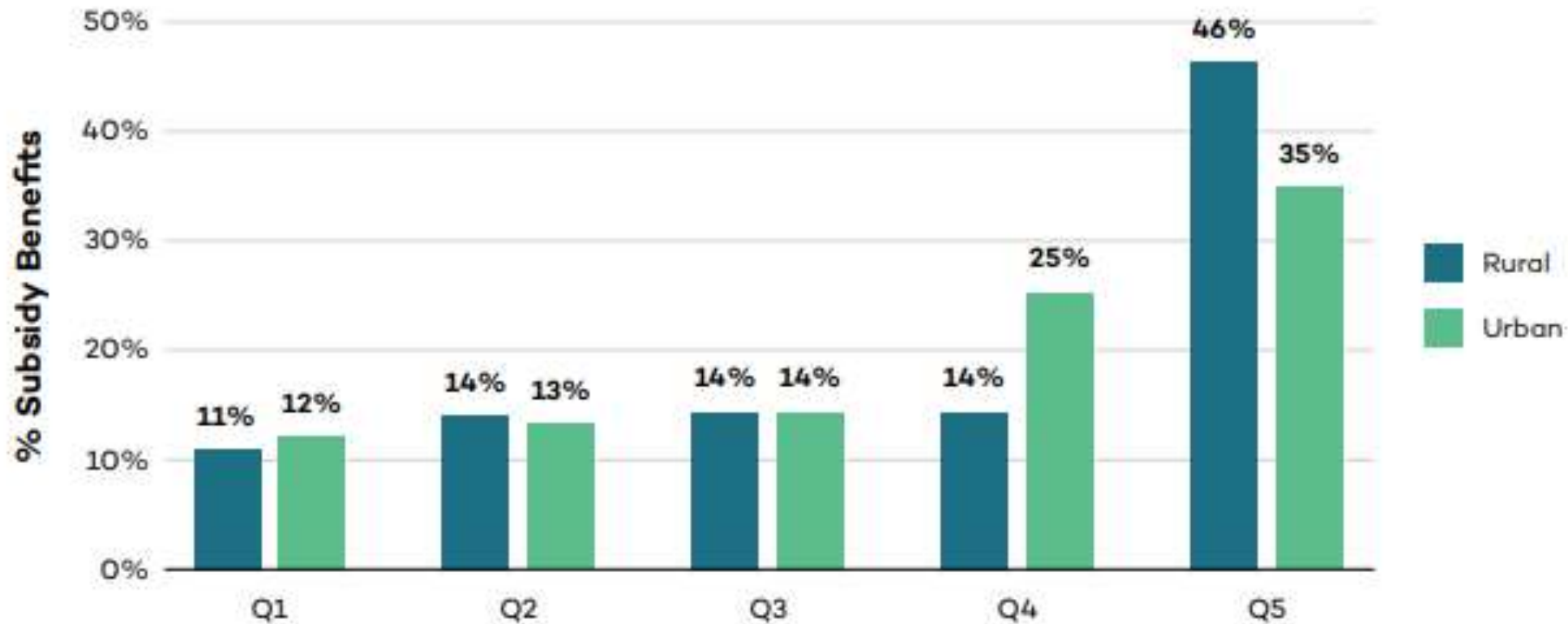


**Figure 8.** Average percentage of CO<sub>2</sub>e reductions over time from consumer FFSR and 10% energy taxation across 32 countries, with 10% of savings and revenues invested in renewable energy (RE) and 20% in energy efficiency (EE)



# FFS highly inefficient in supporting the poor

Figure ES1. Distribution of total subsidies (in %) by rural and urban wealth quintiles



# FFS affect Trade across the whole Supply Chain



**Table ES1. Affected markets and trade exposure**

Affected market	Annual trade volume (% of global prod.)	Annual trade value (USD, 2018)	Competitive density	Key trade impact
Upstream oil	~ 50%	943 billion	High	Battle for market share
Upstream gas	~ 25%	299 billion	High	Battle for market share
Upstream coal	~ 16%	124 billion	Medium	Battle for market share
Electricity	Very small	35 billion	Small	Obstruction of trade
Petroleum products	~ 15%	779 billion	Very high	Battle for market share; smuggling of refined fuels
Energy-intensive industry	Industry-dependent	> 1 trillion	Very high for key industries	Battle for market share
Electricity-intensive industry	Industry-dependent	> 300 billion	Very high for key industries	Battle for market share

Finding 1: Fuel consumption subsidies can have large direct trade impacts.

Finding 2: Economies use producer subsidies to improve the competitiveness of domestic industries on the international market.

Finding 3: Pass-through effects are manifold and significant, and the trade exposure of many fuel-consuming sectors seems to indicate real trade impacts.

Finding 4: The impact of fuel subsidy removal on GDP is acknowledged, but little is known about how changes in productivity affect terms of trade.



# FFS Standstill commitments could act along with other commitments Economies have made



- 2009: APEC Leaders ... acknowledged the importance of rationalising and phasing out over the medium term, inefficient fossil fuel subsidies that encourage wasteful consumption; (Voluntary) Peer Review (2011); APEC Leaders agreed to build regional capacity to assist APEC economies with this commitment (2013) [*Identify – Measure – Evaluate – Reform*]
- SDG 12.c.1 Reporting, from 2020 [*Inventories of FFS*]
- Climate Change commitments
  - Paris Agreement (UNFCCC), NDCs (revised ones now being submitted), etc.
- Net Zero Commitments (made in more than 60% of Economies worldwide)
- Regional and Free Trade Agreements, e.g. ACCTS [*FFS Reform commitments*]
- Domestic desire to move towards more sustainable energy systems, with full access, supportive of the poor and vulnerable

# Standstills – examples in international agreements



- Trade Agreements
  - Services Liberalisation: *Standstill and Ratchet, MFN basis (e.g. Australia-Chile FTA)*
  - Agricultural Export Subsidies (WTO): *Bali Ministerial Decision on Export Competition (7 Dec. 2013); Nairobi Ministerial Declaration (9 Dec. 2015, para. 10) [Value-based]*
  - EU-Ukraine Deep and Comprehensive Free Trade Agreement (prohibition on dual pricing for gas and electricity pricing)
  - 1957 proposal (periodically extended) for a standstill on export subsidies (under GATT)
- Other Examples
  - EC-Australia Agreement on Coal (15 Dec. 1993): *“which provided for a standstill by the EC in subsidised coal production...”*
  - Fisheries Subsidies under SDG 14.6 (*“...refrain from introducing new such subsidies...”*)
  - OECD Negotiating Group on the Multilateral Agreement on Investment (MAI) Agreements: *the “standstill” principle, i.e. not to adopt any new non-conforming measures is a key feature of the MAI (1998 Report, OECD)*
  - Others

# What form could Fossil Fuel Subsidies Standstill commitments take? *Option 1 – Inventory-Based*



- Many Economies have Inventories of FFS, others are developing them
  - Inventories include a list of subsidies, generally based on government policies, regulations or measures
  - Typically some are quantified (financial value), others are not
- See example from New Zealand's Voluntary Peer Review (2015)
  - Definition of FFS based on WTO
- **A Standstill commitment would prohibit new FFS being added to the list**
  - **Could also prohibit the extension of measures with an expiry date**

## APEC Fossil Fuel Subsidy Reform Peer Review

New Zealand voluntarily took part in an APEC Fossil Fuel Subsidy Reform (FFSR) peer review in 2015 to identify inefficient fossil fuel subsidies leading to wasteful consumption.

The APEC panel reviewed 8 measures that are considered to support the fossil fuel sector:

- motor spirit excise duty refund
- funding of international treaty obligation to hold oil stocks
- non-resident drilling rig and seismic ship tax exemption
- indemnity for mining land remediation
- research and development funding for the oil industry
- tax deductions for petroleum-mining expenditures
- financial restructure of Solid Energy
- petroleum tax and royalty regime.

<https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/international-engagement-on-energy/apec-fossil-fuel-subsidy-reform-peer-review/>

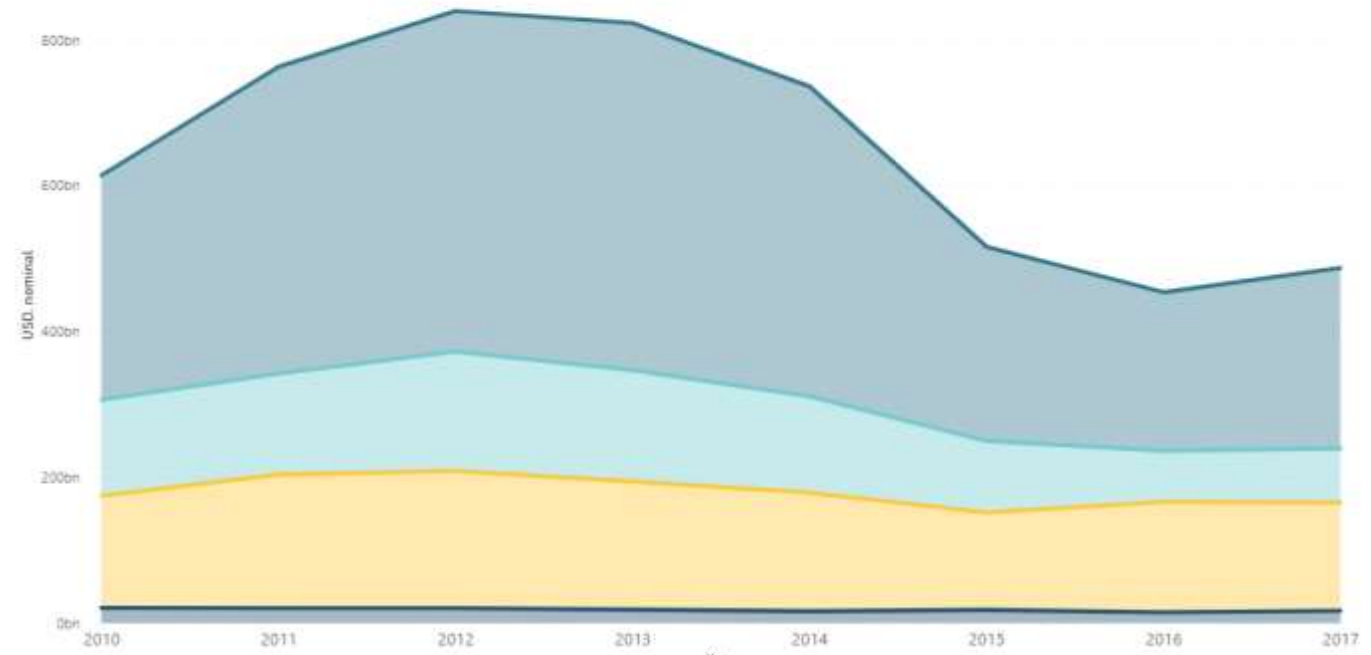
# What form could Fossil Fuel Subsidies Standstill commitments take? *Option 2 - Value-Based*



- Estimates of the Value of FFS (financial) are available from international organisations, some national estimates
  - Again, not all FFS quantified
- Example is from collation of international estimates
  - Some coverage of producer FFS
- **A Standstill Commitment would prohibit the value of FFS from increasing**
  - From a certain year or period
  - To all FFS, by fuel, individual FFS

Global estimates by fuel type

Fuel type • Coal • Electricity • Natural gas • Petroleum products



<https://fossilfuelsubsidytracker.org/>