



**Asia-Pacific
Economic Cooperation**

2021/SOM3/CTI/WKSP3/004

**International Perspectives on the Impacts of Fossil
Fuel Subsidies on Sustainable Development and
Trade, and Potential for Regional Cooperation
Models for Progress on Rationalising and Phasing
Out Fossil Fuel Subsidies, Including Voluntary
Standstill Options**

Submitted by: OECD



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



TRADE POLICY DIALOGUE ON POTENTIAL OPTIONS FOR A VOLUNTARY STANDSTILL ON INEFFICIENT FOSSIL FUEL SUBSIDIES

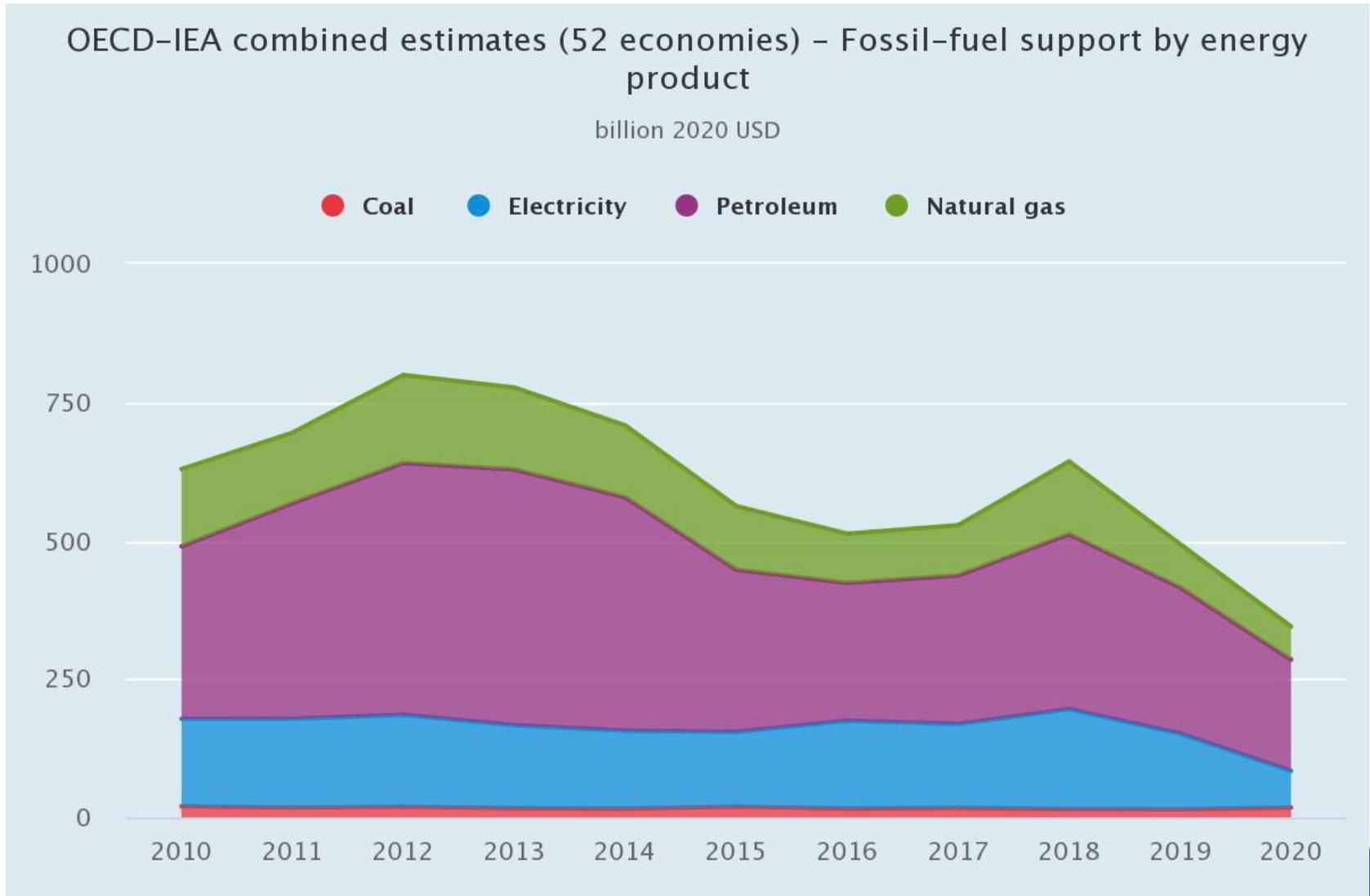
Grégoire Garsous – OECD, Trade and Agriculture Directorate

APEC Committee on Trade and Investment (CTI) Online Workshop

19 August 2021



Some types of support measures are quite well documented...





... but other forms of government support exist.

Table A.4. Matrix of support measures with examples

		Statutory or formal incidence (to whom and what transfer is first given)								
		Production						Direct consumption		
		Output returns	Enterprise income	Cost of intermediate input	Labour	Costs of production factors		Unit cost of consumption	Household or enterprise income	
				Land and natural resources	Capital	Knowledge				
Transfer Mechanism (how a transfer is created)	Direct transfer of funds	Output bounty or deficiency payment	Operating grant	Input-price subsidy	Wage subsidy	Capital grant linked to acquisition of land	Grant tied to the acquisition of assets	Government R&D	Unit subsidy	Government-subsidized life-line electricity rate
	Tax revenue forgone	Production tax credit	Reduced rate of income tax	Reduction in excise tax on input	Reduction in social charges (payroll taxes)	Property-tax reduction or exemption	Investment tax credit	Tax credit for private R&D	VAT or excise tax concession on fuel	Tax deduction related to energy purchases that exceed given share of income
	Other government revenue foregone			Under-pricing of a government good or service		Under-pricing of access to government land or natural resources; Reduction in resource royalty or extraction tax	Debt forgiveness or restructuring	Government transfer of intellectual property right	Under-pricing of access to a natural resource harvested by final consumer	
	Transfer of risk to government	Government buffer stock	Third-party liability limit for producers	Provision of security (e.g., military protection of supply lines)	Assumption of occupational health and accident liabilities	Capital guarantee linked to acquisition of land	Credit guarantee linked to capital; equity conversion		Price-triggered subsidy	Means-tested cold-weather grant
	Induced transfers	Import tariff or export subsidy; local-content requirements and discriminatory government procurement	Monopoly concession	Monopsony concession export restriction	Wage control	Land-use control	Credit control (sector-specific)	Deviations from standard IPR rules	Regulated price; cross subsidy	Mandated life-line electricity rate



Beware other types of subsidies

- Standstill on budgetary transfers (i.e. grants) and tax expenditures is welcome.
- But it should not lead to an increase in other types of government support.
- Transfers of risks could be particularly appealing for governments as a policy response to the COVID-19 pandemic.

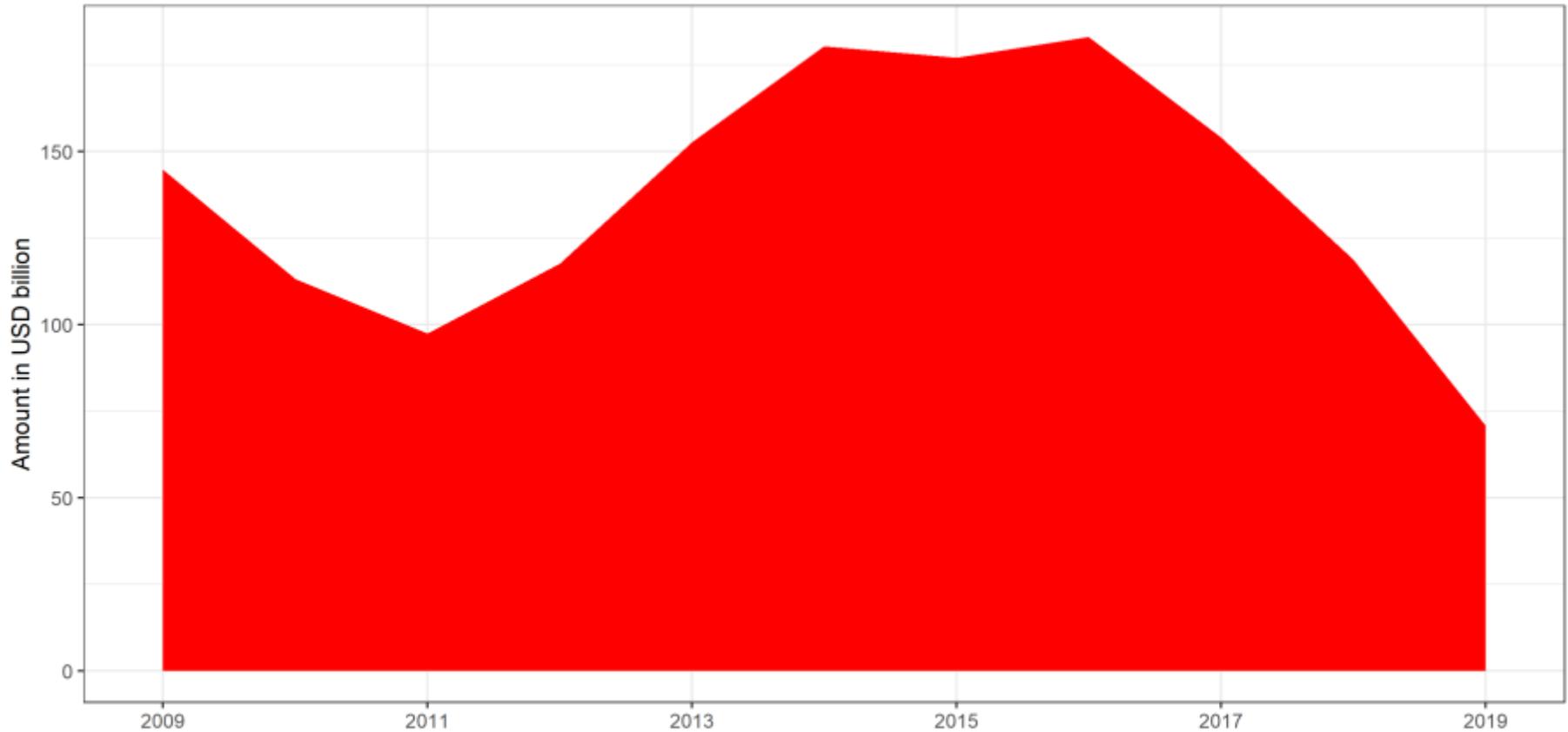


How can governments transfer risks?

- Typically through loans and loan guarantees that offer better contractual terms than private markets.
- These are support measures as they reduce the cost of capital for such projects.
- The exact amount of support is difficult to estimate as it involves a counterfactual.
- Yet certain loans are easily identifiable and could merely be terminated.



Loans and loan guarantees to international fossil fuel projects



Source: OCI - Shift the Subsidies Database



Concluding remarks

- Standstill commitment is welcome but it can only be a start.
- Careful to not increase government support to fossil fuels in other areas – e.g. transfers of risks.
- In the long run, decarbonisation will require phasing out all types of subsidies.
- More information leading to more transparency on these practices is crucial to achieve climate goals.



THANK YOU