



**Asia-Pacific  
Economic Cooperation**

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**2022/CTI/WKSP4/SUM**

**Summary Report - Capacity Building Workshop for  
Accelerating Efforts on Inefficient Fossil Fuel  
Subsidies, Including Through Voluntary Self-  
Reporting 2022**



**Capacity Building Workshop for Accelerating  
Efforts on Inefficient Fossil Fuel Subsidies,  
Including Through Voluntary Self-Reporting  
28 April 2022**

## SUMMARY REPORT

### ASIA-PACIFIC ECONOMIC COOPERATION (APEC) 2021

#### COMMITTEE ON TRADE AND INVESTMENT (CTI) CAPACITY BUILDING WORKSHOP FOR ACCELERATING EFFORTS ON INEFFICIENT FOSSIL FUEL SUBSIDIES, INCLUDING THROUGH VOLUNTARY SELF-REPORTING

THURSDAY 28 APRIL 2022, 2000 SGT

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The APEC Committee on Trade and Investment (CTI) Capacity Building Workshop for Accelerating Efforts on Inefficient Fossil Fuel Subsidies including through Voluntary Self-Reporting took place virtually on Thursday 28 April 2022 at 2000 Singapore Time (SGT). The meeting was opened by Peter Wooders, Senior Director, Energy, IISD. The expert speakers in attendance were Ronald Steenblik, Senior Fellow, IISD, and Justine Garrett, Policy Analyst, Environment Directorate, OECD. Abi Poole, Senior Policy Officer, New Zealand Ministry of Foreign Affairs and Trade, provided a case study on the APEC template for voluntary self-identification of inefficient fossil fuel subsidy measures. While led by the CTI, this cross-fora workshop also brought together policy makers from the Energy Working Group (EWG), the Economic Committee (EC), and the Finance Ministers' Process (FMP). 82 participants from 14 economies registered for the Workshop, with a 49:33 female to male split.

#### 1. OPENING REMARKS

Peter Wooders opened the meeting by outlining the workshop's two key aims. First, to provide a forum for economies to share experiences, best practices, and ongoing efforts to accelerate the implementation of the APEC Leaders' commitment and Ministers' tasking, including through an expert-led discussion of the economic benefits, and positive and negative impacts, of a standstill on inefficient fossil fuel subsidies. Second, to build member economies' capacity to undertake the voluntary self-reporting process for inefficient fossil fuel subsidies, in order to support potential standstill efforts by facilitating discussion of how to go about populating the APEC template for voluntary self-identification of inefficient fossil fuel subsidy measures.

He stated that fossil fuel subsidies undermine efforts to mitigate climate change, and are inconsistent with economies' sustainability objectives. He added that such subsidies are costly, as they increase public expenditure or reduce tax revenue. Finally, he noted that they are also

considered distortive, generating inefficiencies in the production and use of energy economy-wide, and skew capital long-term investment towards fossil-fuel producers or fossil-fuel intensive industry, and away from cleaner energy solutions. He outlined that in this vein APEC Leaders have made a series of commitments in support of fossil fuel subsidy reform, dating back to the 2009 Leaders' Declaration to "rationalise and phase out over the medium-term fossil fuel subsidies that encourage wasteful consumption, while recognising the importance of providing those in need with essential energy services." In 2010, APEC Leaders committed to "rationalize and phase out inefficient fossil fuel subsidies that encourage wasteful consumption, while recognising the importance of providing those in need with essential energy services, and review progress toward this on a voluntary basis." In November 2021, APEC Ministers agreed to "continue our efforts in an accelerated manner" towards this APEC Leaders 2010 commitment. APEC Ministers also "welcome[d] the options", as reported by officials in the CTI Annual Report to Ministers, "that member economies could take to pursue a voluntary standstill on inefficient fossil fuel subsidies", and encouraged officials to identify additional capacity building activities in support of this work. Finally, he noted that this workshop was being held in accordance with the first option outlined in the CTI Annual Report to Ministers, which called for a cross-fora capacity-building workshop to discuss the economic benefits and positive and negative impacts of a standstill, and discuss the terms of an APEC template for voluntary self-identification of inefficient fossil fuel subsidy measures.

## **2. SESSION 1: DISCUSSION ON ONGOING EFFORTS TO ACCELERATE APEC'S WORK ON FOSSIL FUEL SUBSIDY REFORM**

### ***Expert Presentations***

Peter Wooders introduced this session by summarising the findings from the APEC CTI Report '*Options for Taking Forward a Potential Voluntary Standstill Commitment on Inefficient Fossil Fuel Subsidies*', which was published in December 2021 in response to APEC Ministers' Responsible for Trade tasking "to explore options, for those members that are in a position to do so, to undertake a potential voluntary standstill on inefficient fossil fuel subsidies". He noted that in 2019, APEC economies accounted for 21% of global fossil fuel subsidies, and commented that operationalising a standstill on inefficient fossil fuel subsidies would be an effective way of reducing CO<sub>2</sub> emissions in line with economies' climate targets. He outlined the two standard approaches to standstill commitments: an inventory-based approach; and a value-based approach. Many economies already have inventories of fossil fuel subsidies, and

others are in the process of developing them. Inventories could include a list of subsidies, generally based on government policies, regulations or measures, which could be quantified (by their financial value) or not. A standstill commitment following an inventory based approach could prohibit new fossil fuel subsidies from being added to the list, and could prohibit the extension of measures with an expiry date. Explaining the value-based approach, he noted that such a standstill commitment could prohibit the value of fossil fuel subsidies from increasing from a certain year or period. Estimates of the financial value of fossil fuel subsidies could be sourced from international organisations. Such a standstill could apply to all fossil fuel subsidies, to different fuel types, or to individual fossil fuel subsidies. The downside of a value-based approach was that it would not possible to quantify all fossil fuel subsidy measures.

Ronald Steenblik presented on the benefits of a voluntary standstill on inefficient fossil fuel subsidies. He began by reminding participants that all economies have signed the Paris Climate Agreement, which implies reduced fossil fuel use. He explained that subsidies lead to increased production or consumption, or both, of fossil fuels, all else being equal, and greater fossil fuel use generally equates to greater environmental damage. While some consumption of fossil fuels may be unavoidable in the short term – to avoid energy poverty, and in some cases to reduce crude biomass use, which can have adverse effects on forests and indoor air pollution – he noted that economies should plan to end combustion over the medium and long term.

Moreover, he explained that fossil fuel consumption and production has significant impacts on public health, the environment, and the economy. He outlined that the negative impacts of fossil fuel subsidy use on public health can be evidenced by the significant total annual costs of health damage derived from PM<sub>2.5</sub> exposure across economies, a much higher proportion of which, as a percentage of GDP, has typically been born by lower-middle income and some upper-middle income economies. The share of mortality deriving from PM<sub>2.5</sub> exposure, in particular, is much higher in middle and lower income economies. Alongside lowering these costs and improving public health, he noted that reducing fossil fuel consumption and production through a standstill could also trigger the following environmental benefits: cleaner air; less forest, crop and infrastructure damage from acid rain; a reduced risk of future catastrophic climate change; fewer oil spills; less land disruption and reduced methane leaks. He further outlined the following economic impacts: funding subsidies on fossil fuels is expensive, increasing direct budgetary burden or reducing tax revenues; subsidies related to production or transport investments can lock in fossil-dependent facilities; subsidies related to

consumption can encourage investments in durable goods, such as internal combustion engine vehicles, and building heating systems based on natural gas or oil; and fossil fuel subsidies can also distort trade. Finally, he commended APEC's commitment towards a voluntary standstill on inefficient fossil fuel subsidies and associated self-reporting through the APEC template as an important step in combating these impacts to public health, the environment and the economy. He added that the opportunity to take stock of economies' own fossil fuel support policies through the identification and reporting process should be seen as a collective learning experience.

Justine Garrett described the OECD's sequential framework for accelerating fossil fuel subsidy reform using economy-level inventories. She outlined its four step process to support economies implement this work:

- Step 1: identify support measures, document their objectives and estimate their fiscal costs using tools such as the OECD Inventory, IEA estimates, and IMF estimates;
- Step 2: measure the relative distortiveness of support measures and create a ranking using tools such as effective tax rates, and sectoral models of oil and gas production;
- Step 3: identify the winners and losers of fossil fuel subsidy reforms and distributional consequences, using tools such as micro- (firms and household based) and macro-simulation models (CGE models);
- Step 4: Evaluate alternative policies that accompany fossil fuel subsidy reforms to alleviate distributional consequences, again, using tools such as micro- (firms and household based) and macro- simulation models (CGE models).

She highlighted that stocktaking has an important role to play in assessing the ongoing relevance of support measures, and determining whether alternative, environmentally friendly measures could meet the same policy objectives. To support this process, she noted that economies may choose to undertake a peer review of their fossil fuel subsidy measures, using either the APEC or G20 mechanism. Economies could also refer to previously completed peer reviews to get a better understanding of the different interpretations which have been used to identify "inefficient" fossil fuel subsidies.

### ***Interactive Discussion***

During the interactive discussion, economies spoke in support of the initiative and its future implementation. New Zealand updated on its efforts in support of the APEC Ministers' tasking and Leaders' commitments on fossil fuel subsidy reform, highlighting in particular the value of

promoting greater transparency through the APEC template for voluntary self-identification of inefficient fossil fuel subsidy measures and varying peer review processes. It highlighted the key lessons they have learnt through this process, which included the need to allow sufficient time for the review process, and the need for active participation of the host economy and relevant stakeholders. Canada spoke to its support for the standstill initiative, stating that the implementation of a standstill on inefficient fossil fuel subsidies would be a meaningful first step in our collective action against climate change and shift towards a low-carbon economy. Canada is actively taking action towards its commitment to rationalise and phase out inefficient fossil fuel subsidies, including through tax policy measures. It is also currently conducting a peer review on its inefficient fossil fuel subsidies using the G20 mechanism, which it noted was highly complementary to the APEC template for voluntary self-identification of inefficient fossil fuel subsidy measures and standstill process. Finally, the United States expressed its support for APEC's work in promoting increased transparency and accountability around fossil fuel subsidy reform. It highlighted that if economies are to achieve the decarbonisation required and fulfil our commitments within the Paris Agreement and avoid the catastrophic impacts of the climate crisis, we need to urgently transition away from fossil fuels. The United States is taking several actions in support of this work, including by ending international financing of carbon intensive fossil fuel based energy, and utilising its 2023 budget to call for further action against inefficient fossil fuel subsidies.

### **3. SESSION 2: DISCUSSION ON THE APEC TEMPLATE FOR VOLUNTARY SELF IDENTIFICATION OF INEFFICIENT FOSSIL FUEL SUBSIDY MEASURES**

#### ***Expert Presentations***

Ronald Steenblik addressed the questions economies are likely to encounter in implementing the APEC template for voluntary self-identification of inefficient fossil fuel subsidy measures. First, in determining what makes a fossil fuel subsidy “inefficient”, he reflected on the different interpretations which have come through the various G20 peer reviews, and noted that it would be helpful for economies looking to participate in the reporting process to define their criteria in writing at the start of the process. Second, in examining the rationale of subsidy measures, it would be useful for economies to try to determine the original rationale for the measure, and question whether that rationale is still valid, or whether it has since transformed. He noted that in some cases, better methods may have since developed to achieve the original aim of the measure. Third, in estimating the fiscal value of the measure, economies can draw on

budgetary support measures and in kind benefits, consumer price support, tax expenditures, the subsidy-equivalent value of loans, loan guarantees and other credit, and advantages enjoyed by state-owned enterprises. He cautioned that while determining budgetary support, such as grants, and in-kind benefits, such as reduced electricity prices, can be rather straight forward, policies that artificially reduce domestic prices as compared with the full cost or export parity price can be more complicated.

He then offered some reflections from his past work on fossil fuel subsidy peer reviews. First, he noted that economies can often find value in engaging a subsidy expert from an experienced inter-governmental or non-governmental institution when first completing a self-reporting process. Second, he recommended economies engage a “countervail authority”, for instance, their trade-ministry subsidy experts, when undertaking a review process. Third, economies could invest in internal capacity building, for example by organising expert-led workshops to present and discuss the results of the review, and otherwise promote subsidy accounting and analysis as an intellectual pursuit.

Abi Poole then outlined New Zealand’s approach to completing the APEC template for voluntary self-identification of inefficient fossil fuel subsidy measures. She noted that in the interests of transparency, New Zealand has taken a broad approach to filling out the template to include fossil fuel subsidy measures not considered “inefficient”. She noted, however, that New Zealand’s approach does not prejudice other economies’ approaches. Poole then walked participants through New Zealand’s working draft of the template, which draws on findings from its 2015 APEC fossil fuel subsidy reform peer review, and the 2018 OECD peer review.

### ***Interactive Discussion***

Economies used the discussion session to note their support for the APEC template for voluntary self-identification of inefficient fossil fuel subsidy measures, and report on some of the key challenges economies have faced in reviewing their inefficient fossil fuel subsidies. Canada stated its support for the template, noting value in the flexibility it provides and emphasising the importance that reporting the value of inefficient fossil fuel subsidies remains optional. The United States provided background on the challenges to self-identifying inefficient fossil fuel subsidy measures, as discussed during previous APEC EWG workshops. These challenges included difficulties associated with: defining “inefficient” fossil fuel subsidies; establishing pricing mechanisms; dealing with price volatility; identifying those

segments of the population that would be most affected; ensuring that measures include or are tailored to mitigate the impact on vulnerable populations; and determining how to best time reform measures, how to make reform measures resilient to changes in prices, and how to make reforms sustainable. It also emphasised the importance of ensuring that the reporting process was inclusive, engaging governments, industry, stakeholders, and affected populations.

#### **4. SUMMARY AND CLOSING REMARKS**

In summarising, the Chair thanked all participants for their involvement and support, and reiterated the importance of continuing efforts in support of APEC's Leaders' commitment to rationalize and phase out fossil fuel subsidies, and Ministers' tasking, including through operationalising a voluntary standstill on inefficient fossil fuel subsidy measures and completing the APEC template for voluntary self-identification of inefficient fossil fuel subsidy measures.

ENDS