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Benefits of a Voluntary Standstill on Inefficient Fossil Fuel Subsidies

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**Capacity Building Workshop for Accelerating
Efforts on Inefficient Fossil Fuel Subsidies,
Including Through Voluntary Self-Reporting
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Benefits of a voluntary standstill on inefficient fossil fuel subsidies

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Main environmental rationale



- All APEC economies have signed the **Paris Climate Accord**, which implies reduced fossil fuel use.
- Subsidies lead to increased **production or consumption**, or both, of fossil fuels, all else equal.
- More fossil fuels = more **environmental damage**.
- Some consumption of fossil fuels may be unavoidable in the short-term — e.g., to avoid **energy poverty**, or reduce crude biomass use. But long-term plan should be to end combustion.

Environmental benefits of reduced FF consumption



Cleaner air

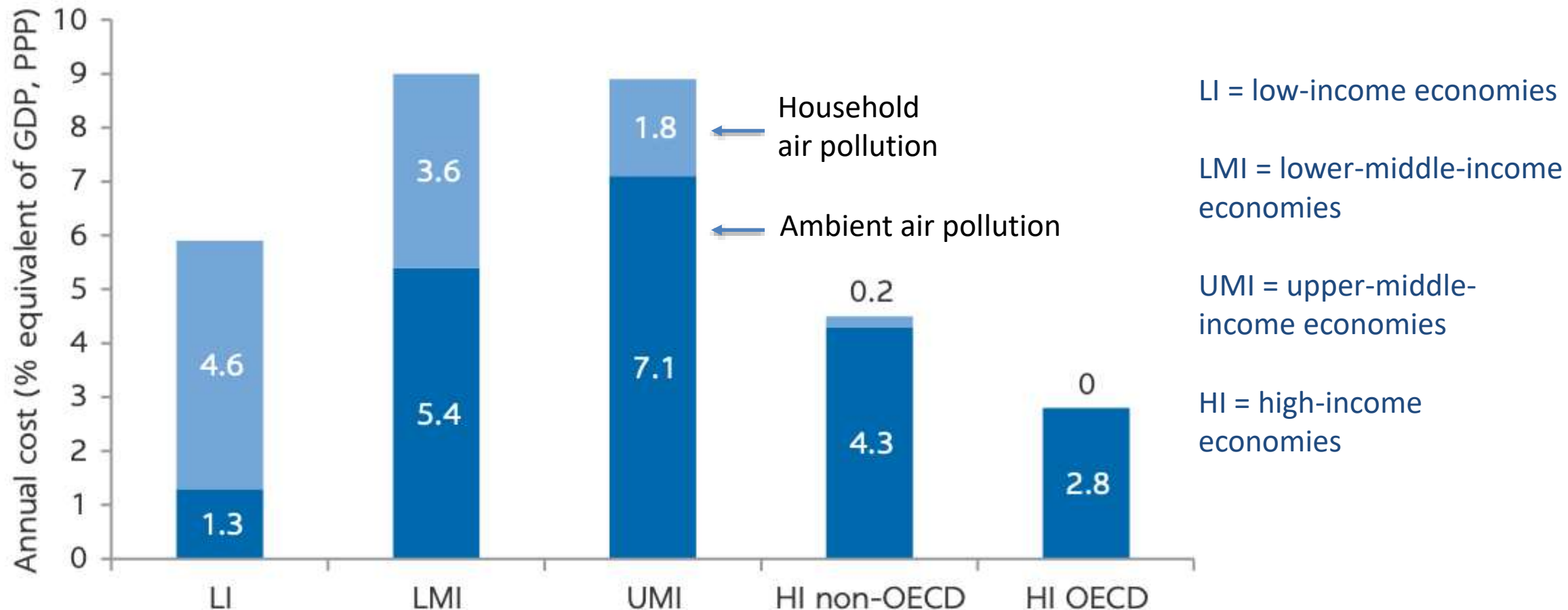


Less forest, crop, and infrastructure damage from acid rain



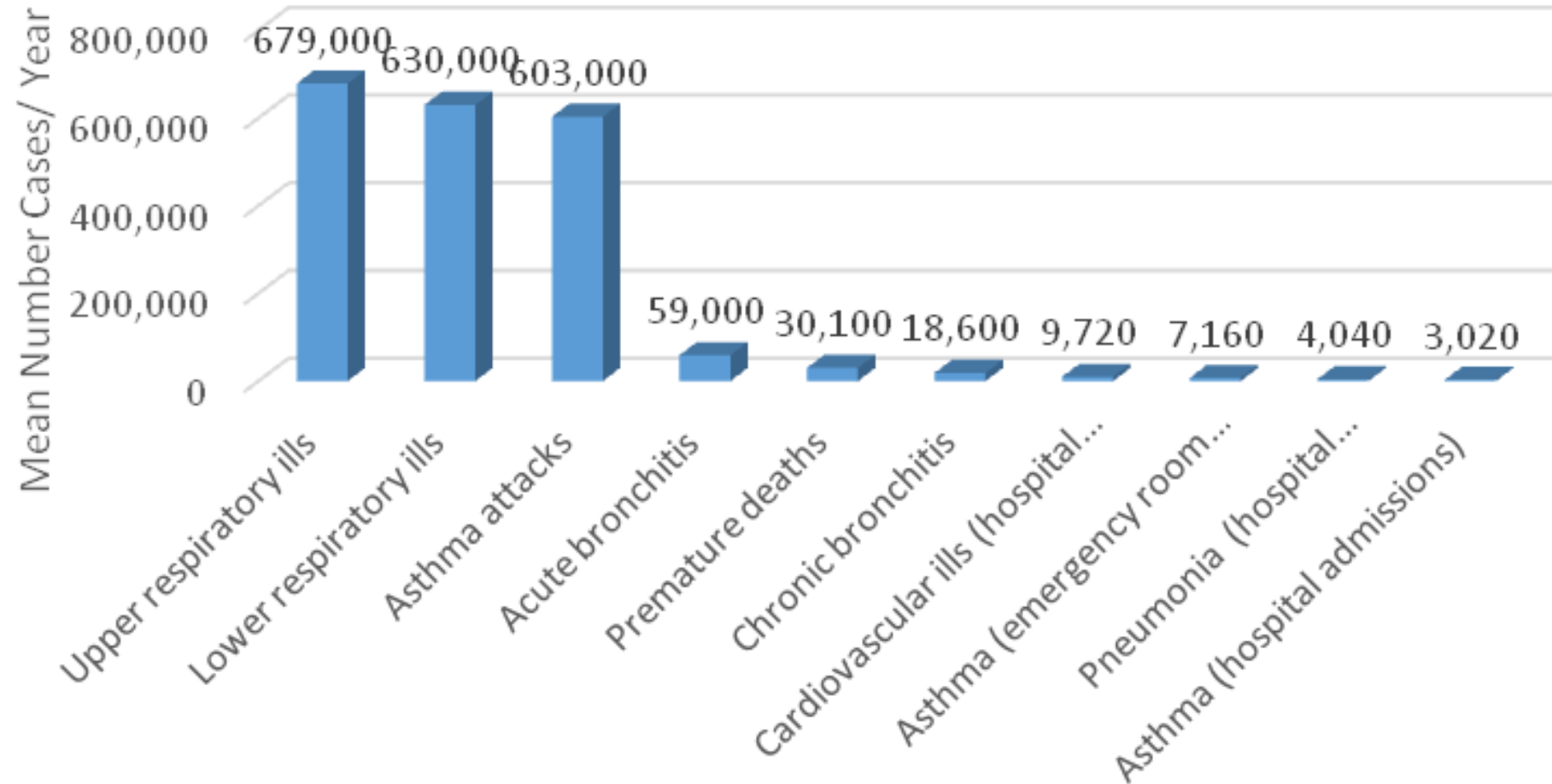
Reduced risk of future catastrophic climate change

Annual cost of health damage from PM_{2.5} exposure by income group, percent equivalent of GDP (PPP), 2019



Source: World Bank (2022). *The Global Health Cost of PM_{2.5} Air Pollution: A Case for Action Beyond 2021*. International Development in Focus. Washington, DC: World Bank., p. 21

Impact of particulate pollution from fossil-fueled power plants on U.S. health, mid-2000s



Data source: Pascale Scapecchi (2008). "The Health Costs of Inaction with Respect to Air Pollution", Environmental Working Papers No. 2. Paris: OECD Publishing.

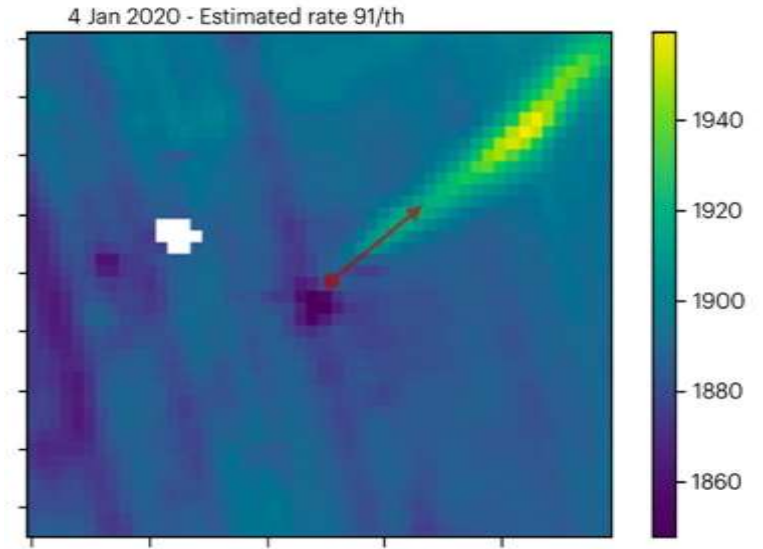
Environmental benefits of reduced FF production



Fewer oil spills



Less land disruption



Reduced methane leaks

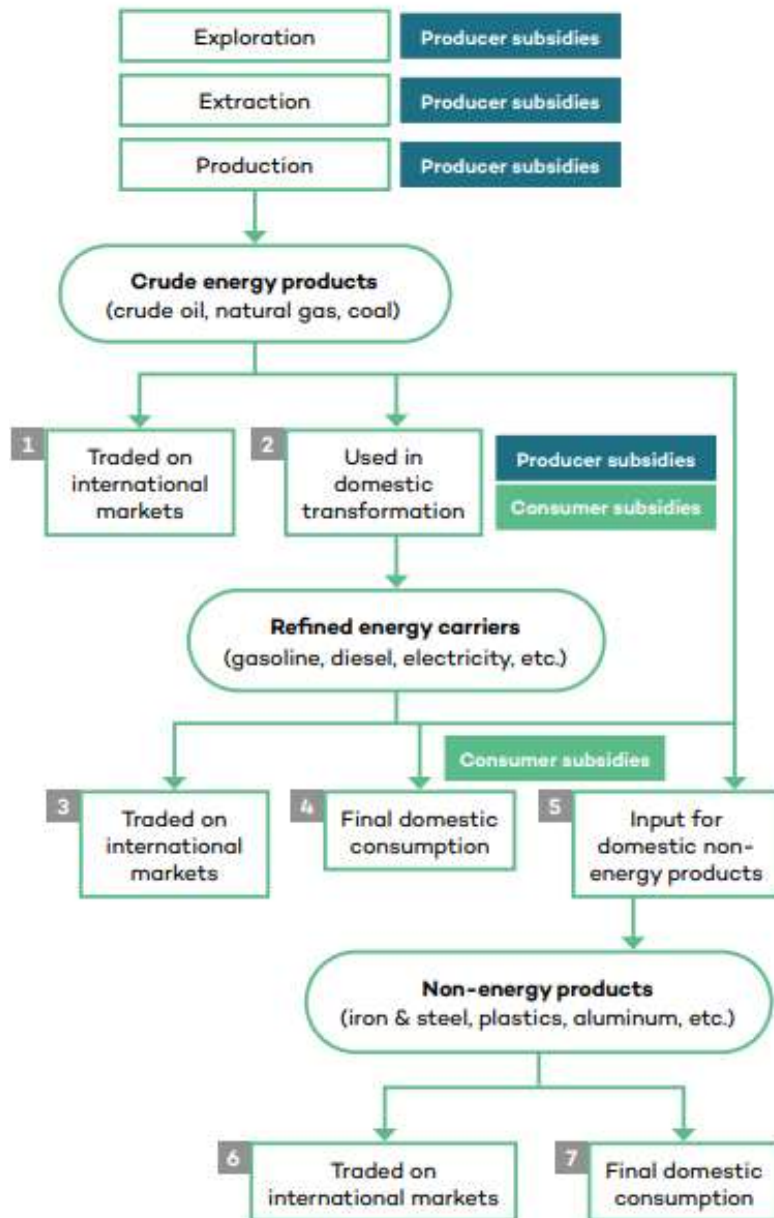
Economic effects of fossil fuel subsidies



- Subsidies to fossil fuels are **expensive** — increasing direct budgetary burden or reducing tax revenues.
- Subsidies related to production or transport investments (e.g., pipelines) **lock in fossil-dependent facilities.**
- Subsidies related to consumption can also encourage investments in **durable goods**, such as internal-combustion-engine vehicles, building heating systems based on natural gas or oil.
- **FF subsidies can also distort trade.**



Figure ES1. Trade impacts of fossil fuel subsidies at various stages value chains



Most prominent trade impacts at various stages of fossil fuel product value chains



1. Increase exports or reduce imports of an economy's **crude energy products**
2. Displace imports of crude energy products and reduce competitiveness of domestically manufactured or imported **alternative energy**
3. Increase exports or reduce imports of an economy's **refined energy products**
4. Effects on imports of refined energy products depends on **mechanism**; reduces imports of alternative energy
5. Ditto.
6. Increase an economy's global market share of fossil-intensive **non-energy products** (metals, plastics, fertilizers etc.)
7. Displace imports of fossil-intensive non-energy products

Source: Adapted from T. Moerenhout & T. Irschlinger (2020). Exploring the Trade Impact of Fossil Fuel Subsidies. Geneva: GSI of IISD.

APEC Standstill Agreement on FFS



- **Provides APEC economies with an opportunity to take stock of their fossil-fuel support policies.**
- **Process of identifying and quantifying fossil fuel subsidies can be seen as a collective learning experience.**
- **Helps prepare APEC economies for participating constructively in other international forums, such as the WTO and the UNFCCC.**



Thank you

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