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## FOSSIL FUEL SUBSIDY REFORM (FFSR)

MEETING HELD ON 3 OCTOBER 2022

*Aide-Mémoire by the Coordinator<sup>1</sup>*

The first meeting of the Fossil Fuel Subsidies Reform (FFSR) initiative under the High-Level Work Plan [WT/MIN\(22\)/8](#) for the years 2022-23 was held on 3 October 2022. The meeting was chaired by New Zealand (coordinator of the initiative). The agenda for the meeting was contained in WTO document [INF/TE/FFSR/CN/1](#), circulated on 28 September 2022. All WTO Members were invited to attend the meeting.

The meeting had the following objectives: (i) undertake a stocktake of current activities related to FFSR by WTO Members and international bodies relevant for further discussion under the WTO; (ii) assess some of the existing evidence of environmental harms from fossil fuel subsidies and gaps in the evidence base; and (iii) consider co-sponsoring Members' updates on priorities under the initiative and opportunities for future work and collaboration.

### 1 INTRODUCTORY REMARKS BY THE COORDINATOR

1.1. New Zealand welcomed participants, explained the purpose and structure of the meeting and set the discussion in the context of wider efforts in this area. This included recalling the shared ambition to tackle inefficient fossil fuel subsidies (FFS) that had been affirmed in a range of international fora, including in the Sustainable Development Goals (SDGs), under the Glasgow Climate Pact, as well as by a number of economies within the G20, G7, and the Asia-Pacific Economic Cooperation Committee (APEC). The FFSR initiative at the WTO aimed to help shift that ambition into action, recognizing the role the WTO could play in achieving ambitious and effective multilateral disciplines, as well as to support co-sponsors' own domestic reform efforts.

1.2. The coordinator recognized the difficulties arising from the looming energy crisis but cautioned that it was important not to lose sight of shared objectives – and ambition – longer term. Rising fossil fuel prices served to reinforce the need to accelerate the transition away from fossil fuels towards clean, green energy systems. Temporary relief measures put in place in response to the crisis should not be allowed to become embedded, if the increasingly urgent goals set out in the Paris Agreement were to be met. New Zealand encouraged co-sponsors to continue their excellent work in supporting the momentum behind the initiative and welcomed ongoing advocacy to encourage new co-sponsors to join in this effort.

### 2 STOCKTAKE OF CURRENT ACTIVITIES RELATED TO FFSR BY WTO MEMBERS AND INTERNATIONAL BODIES RELEVANT FOR FURTHER DISCUSSION UNDER THE WTO, INCLUDING ON DEFINITIONS AND UNDERSTANDING OF RELEVANT CONCEPTS

2.1. The International Institute for Sustainable Development (IISD) introduced its [Policy Brief and Stocktake of International Efforts Related to FFSR](#). The policy brief summarized and highlighted the efforts that had gone into FFS research up to the present moment. It addressed questions, such as: (i) what was subsidized; (ii) estimates of fossil fuel subsidies; (iii) environmental impacts of fossil fuel subsidies; (iv) types of international cooperation developed to support the reform; (v) impact

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<sup>1</sup> This aide-mémoire is being shared to provide delegations with a brief overview of the discussions and assist them in reporting back to their capitals. It provides a non-exhaustive, illustrative review of the issues addressed by Members and Stakeholders at the meeting.

of fossil fuel subsidies on international trade; (vi) why the WTO was well suited for the conversation on FFSR. IISD underscored that several different international fora had recognized the importance of reforming FFS. In particular, commitments were made in the context of the G7, G20, SDG 12.c of the 2030 Agenda, Article 2 of the Paris Agreement, ACCTS negotiation, and WTO FFSR Joint Ministerial Statement. Pledges included rationalizing and/or phase-out of inefficient fossil fuel subsidies leading to wasteful consumption, while providing targeted support to the poorest and most vulnerable. IISD highlighted the FFSR Ministerial Statement as well as the work undertaken under the Trade and Environmental Sustainability Structured Discussions (TESSD), aiming for ambitious and effective disciplines, including through enhanced WTO transparency and reporting. This was an excellent moment to evaluate how the WTO efforts could complement existing initiatives.

2.2. In response to a question by a delegation, IISD noted that the "carbon club" established under the G20 could add value to the FFSR discussions by bringing more political attention to the issue and understanding about the need to act. Other international processes could also bring in their experience on the subject and data, e.g. collected from peer review processes. For its part, the WTO could contribute with more understanding on the definition of subsidies, and with experience from the recent Fisheries Subsidies Agreement driven by environmental concerns.

2.3. The WTO Secretariat provided an overview of a recent joint report by the WTO, the International Monetary Fund (IMF), the World Bank, and the Organisation for Economic Co-operation and Development (OECD) titled [Subsidies, Trade and International Cooperation](#). The report recognized that there were sound rationales for some subsidies, but that design mattered as well. Addressing new challenges, such as climate change and digitalization, required a clear sense of the positive and negative aspects of existing subsidies and a better understanding of the current landscape of subsidies in the global economy. Current discernible patterns showed that subsidies were the most frequent form of government intervention post financial crisis. Subsidies were not a single-country or single-region "issue" despite the existence of high concentration. Many sectors appeared to benefit from subsidies which took different forms (grants, preferential loans, tax incentives), with variation across countries, and sub-central government entities accounting for the vast majority of subsidy programmes. As compared to subsidies in other sectors, FFS remained high. Existing WTO rules provided a strong basis, but longstanding and more recently exposed gaps remained. Therefore, the report found that improved transparency, analysis and consultation around subsidies could improve the application of existing rules and norms and inform their further development. Finally, the report highlighted that not all subsidies were problematic. Working out which was which was key. The WTO could help with that through: (i) transparency and analysis: by improving measurement and access to information, as well as understanding subsidies' impacts; (ii) consultation and dialogue: by cooperation that would encourage and inform reform in different fora, including WTO committees; and (iii) rules and norms: by developing effective and balanced new rules and improving the operation of existing ones.

2.4. On the question of poor compliance with subsidy notification requirements, the WTO Secretariat noted that they had been looking at different ways to improve compliance by using electronic notifications and providing technical cooperation to countries facing difficulties. However, there was an issue with incentives that was difficult to tackle. The role that notifications would play in improving transparency in the coming years was unclear and different approaches had to be adopted to improve the quality and quantity of information received.

2.5. The APEC Committee on Trade and Investment (CTI) provided an overview of the APEC FFSR Transparency Template and Voluntary Standstill Mechanism. APEC CTI explained that, in 2009, APEC Leaders committed to rationalize, and phase out over the medium term, FFS that led to wasteful consumption, while recognizing the importance of providing those in need with essential energy services. The main focus areas in this regard had been peer reviews and capacity building. Currently, APEC was continuing work on the design of the voluntary standstill on inefficient FFS, e.g. whether it should be inventory-based, value-based, or a mixture of the two. Another main focus had been the development and implementation of a transparency mechanism with the goal for economies to voluntarily report on current inefficient FFS. The mechanism included information on the description of the measure and its rationale, beneficiaries, the standstill or reform commitment applied to the measure, timeframes, and fiscal value. It allowed for economies to individually determine what an inefficient FFS might be. APEC CTI concluded by highlighting the varying levels of transparency on subsidies and the need for more work, but also noted the ongoing momentum on this topic.

2.6. The United Nations Framework Convention on Climate Change (UNFCCC) updated participants on the state of play on FFSR under UNFCCC following the Glasgow Climate Pact. UNFCCC emphasized that the aim under the Paris Agreement could not be reached without addressing the issue of subsidies. At COP26, FFS were mentioned for the first time in one of the climate agreements. The 2021 Nationally Determined Contributions (NDCs) synthesis report prepared by UNFCCC had also shown some GHG reduction scenarios resulting from modelling the commitments that countries had taken forward. This included fiscal scenarios with phasing out of FFS, taxation on fossil fuels, and savings from FFS reforms being reinvested into renewables. While countries' NDCs did not contain a detailed discussion on the policies or actions to be put in place, soon the biennial transparency reports (BTRs) would require countries to give more details on how commitments had been implemented and, in particular, how subsidies had been used to realize those commitments. The forum on the implementation of response measures had issued a technical paper in which different types of subsidies had been included along with their possible social, economic, and environmental impacts. UNFCCC emphasized that all three of these aspects had to be taken into account in order to assess subsidies' impact. Well-designed policies on reduction of FFS were important, along with carefully crafted complementary policies, such as policies promoting renewable energy. In addition, the G7 and G20 were doing important work in terms of just transition: forming partnerships that helped developing countries put their governance systems in place in order to move away from fossil fuels and towards more clean energy solutions. Going forward, just transition would be one of the priorities at COP27 and the main path moving forward for the UNFCCC would be about enhancing implementation.

### **3 STOCKTAKE AND ASSESSMENT OF EXISTING EVIDENCE OF ENVIRONMENTAL HARMS FROM FFS AND GAPS IN THE EVIDENCE BASE**

3.1. The United Nations Environment Programme (UNEP) provided an update on its data collection and reporting system under SDG indicator 12.c.1 on the [Amount of fossil-fuel subsidies per unit of GDP \(production and consumption\)](#). UNEP was the custodian of SDG indicator 12.c.1 and was therefore responsible for leading the development of an internationally established methodology and the design of a data collection and reporting system for SDG 12.c.1. UNEP shared several challenges related to data compilation, including the need for further capacity-building efforts and additional intra-governmental coordination. The target for national datasets development was to have a reliable, comparable national inventory on FFS by 2025. While reporting on tax expenditure and other revenue foregone remained optional, due to the complexity of definitions and data available, it was worth carrying this discussion forward, especially given that tax expenditure represented the largest category of FFS. UNEP concluded by underscoring that the SDG 12.c.1 indicator methodology would continue to evolve based on the lessons learned from initial country reporting, progress in data availability, improvement of national capacity, and future research on the topic.

### **4 FOLLOW-UP DISCUSSION BY DELEGATIONS**

4.1. Overall, the presentations were welcomed and spurred engagement among participants. Several delegations responded to the guiding questions.<sup>2</sup> Discussions underscored the need to enhance transparency and reporting on FFS. Several delegations noted that the WTO was well placed to be a central actor in this work.

4.2. Delegations expressed interest in further exploring how to increase the transparency of FFS programmes, with many noting that this would be a first vital step towards closing information gaps and achieving reforms. Delegations recognized opportunities to build on efforts by other

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<sup>2</sup> The following guiding questions were sent to participants: (i) What cross-government mechanisms are used to establish an economy-wide understanding of support measures relevant to fossil fuel subsidies? What tools are available to cosponsors to assess the fiscal and environmental impacts of various measures, and where are the information gaps? (ii) Recalling the commitment in [WT/MIN\(21\)/9/Rev.2](#) to share information and experience to advance discussion in the WTO, what areas of focus and processes for information sharing, technical workshops or presentations would assist cosponsors in advancing domestic reform efforts, as well as work to advance multilateral action? (iii) What existing avenues at the WTO can be utilised to better understand the trade, economic and environmental impacts of fossil fuel subsidies, and what additional information is needed to better evaluate these? For example, could the WTO Secretariat compile examples of questions related to FFS raised in the Trade Policy Review Body and the Subsidies and Countervailing Duties Committee for use by cosponsors to improve transparency on FFSR via these tools and potential for coordination among cosponsors? Any other suggestions for use of existing WTO avenues? (iv) What opportunities exist for collaboration with other international processes relevant to FFSR? e.g. UNFCCC, APEC, G20.

international organizations involving voluntary reporting, experience sharing, and peer reviews. They also considered that the current energy crisis made the case for a clean energy transition all the more urgent.

4.3. Several delegations supported the idea of the WTO Secretariat compiling examples of relevant questions related to FFS raised in the Trade Policy Review Body and the Committee on Subsidies and Countervailing Measures. Other delegations noted that to improve the transparency of FFS, WTO Members could draw on external sources, including databases maintained by the OECD, APEC, and the International Energy Agency (IEA). One delegation highlighted the importance of addressing information gaps, including in relation to state-owned enterprises and the role of government entities either as recipients or providers of FFS, as well as the extent of subsidies provided by sub-central entities.

4.4. Several delegations observed that FFSR should be seen within a wider range of policy instruments, including discussions related to environmental goods and services and to plastic pollution. Some delegations noted that the production of plastic involved FFS and, thus, these topics could also be discussed together in the WTO Dialogue on Plastic Pollution and Environmentally Sustainable Plastic Trade (DPP). Some delegations specified that discussions could look at the proportion of FFS in the plastics value chain and how these subsidies limited the competitiveness of substitute materials with lower levels of subsidies.

4.5. Several other delegations considered it valuable to engage the CTE and TESSD and report to those groups. One delegation recalled the work undertaken in the TESSD working group on subsidies and underscored that a matrix, like the one used by the OECD, could be of great assistance in FFSR's work. One delegation welcomed the WTO Secretariat's holistic and comprehensive approach on the impact of subsidies and considered the need for a general analysis on the impact of subsidies on competition, international trade, and the environment. Some other delegations noted the need to identify criteria for inefficient subsidies and highlighted the importance of involving different stakeholders to consider countries' specific circumstances, the social dimension of the issue, and technical assistance needs. One delegation underscored the need for a mechanism to provide technical assistance to developing countries and suggested that the WTO Secretariat be approached for such support.

4.6. Several delegations underscored the importance of collaboration and synergies with other processes. Some other delegations expressed full support for the call by the Glasgow Climate Pact to scale up clean power generation and energy efficiency measures and accelerate the phase-out of FFS. One delegation noted that, following COP27, it was important to understand how to encourage the incorporation of FFSR measures in countries' NDCs.

4.7. One delegation shared its experience with reporting on energy and fossil fuels subsidies.

## 5 INTERVENTIONS BY OTHER STAKEHOLDERS

5.1. Other stakeholders, including representatives of the Quaker United Nations Office (QUNO), World Economic Forum (WEF), and the Forum on Trade, Environment and SDGs (TESS), also provided suggestions for work moving forward.

5.2. QUNO presented a specific proposal on how the WTO could best support domestic and international efforts to phase out inefficient FFS. The starting point for this proposal was the 2022 Ministerial Statement on Fossil Fuel Subsidies ([WT/MIN\(21\)/9/Rev.2](#)). The QUNO proposal included the following three-stage process towards an open plurilateral on FFSR: (i) Stage 1 (until MC13) would seek to further explore and identify the specific trade relevance of discussing FFSR in the multilateral trading system; (ii) Stage 2 (after MC13) would involve discussions led by a coalition on various issues relating to scope and definitions; and (iii) Stage 3 would be set for longer term and would focus on deeper discussions aimed at developing disciplines to phase out inefficient FFS. Next, QUNO presented several suggestions for a medium-term and longer-term work programme. These included obtaining clarity on what types of measures qualified as "subsidies" and undertaking an analysis to identify and rank the most environmentally harmful and trade-distorting subsidies. QUNO underscored that obtaining better data should not be a priority pursuit of the WTO, but of other inter-governmental and non-governmental organizations. QUNO also suggested the establishment of a fund for helping the poorest WTO Members manage the transition.

5.3. TESS highlighted the need to consider the concerns of developing countries and underscored the importance of synergies with TESSD and DPP. TESS encouraged WTO Members to think creatively, including beyond the traditional WTO binding agreements and to explore other options, such as soft law and voluntary pledges, in order to move the work on FFSR forward and achieve tangible results.

5.4. WEF underscored that 86% of FFS came in the form of consumption subsidies, often as tax exemptions for liquid fuels. As these benefits ended up mostly with the wealthiest segments of society, FFS contributed to inequality. WEF called on co-sponsors of FFSR to come up with concrete actions and suggested improving transparency as a useful step towards this goal.

## **6 NEXT STEPS**

6.1. The next meeting, which would focus on development and social issues associated with FFSR, would be held in early 2023.

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