



## FOSSIL FUEL SUBSIDY REFORM (FFSR)

MEETING HELD ON 24 NOVEMBER 2023

### *Summary Report<sup>1</sup>*

The fourth meeting of the Fossil Fuel Subsidy Reform (FFSR) initiative under the Ministerial Statement and associated High-Level Work Plan [WT/MIN\(22\)/8](#) for the years 2022-23 was held on 24 November 2023. The meeting was chaired by New Zealand (as coordinator). The agenda for the meeting was contained in WTO document [INF/TE/FFSR/CN/4](#). All WTO Members were invited to attend the meeting.

The objective of the meeting was to build on the productive discussions during the three previous meetings in 2022 and 2023 and to look ahead to next steps under the initiative. In particular, the focus was on the three main pillars of work identified to date: (i) enhancing transparency, including through use of existing WTO mechanisms; (ii) ensuring temporary crisis measures are targeted, transparent and temporary; and (iii) identifying the types of fossil fuel subsidies that were most problematic from a trade and environment perspective and considering pathways to address them.

### 1 INTRODUCTORY REMARKS BY THE COORDINATOR

1.1. New Zealand welcomed participants and recapped the group's work to date. At the first meeting in October 2022, participants had undertaken an overall stocktake of international efforts on FFSR and heard expert presentations on reform initiatives related to fossil fuel subsidies. They also heard evidence of the environmental and economic harms from fossil fuel subsidies, learnt more about the need for further information on those harms and discussed the value of enhancing transparency. At the February 2023 meeting, participants had examined in more depth some of the development and social issues associated with reform of fossil fuel subsidies. The Ministerial Statement contained clear recognition that reform needed to take account of the specific needs and conditions of developing countries and minimise possible adverse impacts on development. During the discussion, participants heard both about the challenges facing Members as they undertook reform and the associated opportunities, including the way in which the transition to clean energy could unlock fiscal, developmental, social, and environmental gains.

1.2. At the initiative's third meeting in July 2023, co-chaired by New Zealand and Switzerland, participants had focused on the three areas identified for further work. First, WTO mechanisms to enhance transparency, including particularly the use of Trade Policy Reviews (TPRs) to provide information on fossil fuel subsidies and FFSR. Second, approaches to limit and phase out temporary fossil fuel support measures. In this context, some useful lessons had been drawn from previous energy crises, as well as from more recent Member experience. This had demonstrated a clear trend, over time, away from an initial reliance on price-based measures (with limited targeting and a heavy fiscal burden) to narrower, more targeted (often income-based) approaches. Third, categorisation of different kinds of subsidies. In this area, participants had pointed to the need for further work to better understand the impacts of fossil fuel subsidies and welcomed more analytical work to identify and categorize support measures from a trade distorting and environmental harm perspective. Some participants had also drawn attention to the importance of not losing sight of the extremely high

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<sup>1</sup> This summary report 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 discussed at the meeting.

overall levels of fossil fuel subsidies and had highlighted the size of the gap between current levels of fossil fuel subsidies and funds supporting the green transition.

## 2 UPDATE REPORTS

2.1. The **Organisation for Economic Cooperation and Development** (OECD) provided a high-level overview of work currently under way to update its Inventory of Fossil Fuel Support Measures.<sup>2</sup> The Inventory identified, documented, and estimated the fiscal cost of government support measures that encouraged fossil-fuel production or consumption. The latest edition of the Inventory included 1,654 support measures in 51 OECD, G20, and EU Eastern Partnership economies. It was based on a bottom-up approach that collected detailed information from official government sources (e.g. budget reports) for individual support measure for fossil fuels. In 2022, 162 new measures had been introduced by governments and recorded in the Inventory. The fiscal cost of global support for fossil fuels had almost doubled with increases in all categories of fuels – coal, oil, gas, and electricity. The main driver behind this trend was the emergency support measures that had been introduced by governments to protect households and firms against unusually high energy costs in 2022. Most of these measures translated into support for the production or consumption of fossil fuels. Some other emergency measures, however, demonstrated that alternative policies were feasible, as they had been designed not to encourage the production or consumption of fossil fuels.

2.2. Furthermore, it appeared most of the emergency measures introduced in 2022 had not been targeted on the basis of need. This raised fiscal, distributional, and environmental concerns. The fiscal cost of non-targeted support measures was large. Non-targeted measures also tended to disproportionately benefit better-off households, who consumed more energy. In addition, they distorted price signals and therefore contributed to the continued consumption of fossil fuels. These results underlined the case for reform of support measures. While the new energy context made reforms challenging, there were ways to better target interventions and move away from large-scale support which tended to disproportionately benefit users who did not need it. Phase out of existing support to fossil fuels would also free up much needed fiscal resources to accelerate the deployment of non-fossil technologies and improve energy efficiency.

2.3. The **International Institute for Sustainable Development** (IISD) provided an overview of its recent "Fanning the Flames" paper. The 2022 energy price crisis had catapulted public financial support for fossil fuels to new levels. G20 governments had been quick to cushion the effects of peaking fossil fuel prices and bolster energy supplies, providing a massive USD 1.4 trillion, in the form of subsidies (USD 1 trillion), investments by state-owned enterprises (USD 322 billion), and lending from public financial institutions (USD 50 trillion). Production subsidies had remained mostly unchanged, with a major part of this additional support going to consumption subsidies. Nevertheless, around one third (USD 440 billion) had been driving investment in new fossil fuel production.

2.4. That support perpetuated reliance on fossil fuels and risked further energy crises due to market volatility and geopolitical risks. It also severely hampered the possibilities of achieving climate objectives set by the Paris Agreement by incentivizing fossil fuel use while undermining the cost-competitiveness of clean energy. Many of the measures taken to reduce fossil fuel energy costs had been temporary, but not all had been targeted. Helping households and businesses during an energy crisis was understandable and necessary, but there were better ways to do it than subsidizing fossil fuels. Such subsidies kept consumers locked into emissions-intensive, polluting, and price-volatile energy sources, where more targeted support measures decoupled from fossil fuel consumption, such as increased family welfare payments and one-off cash transfers to vulnerable groups, were available.

2.5. The **Forum on Trade, Environment & the SDGs** (TESS) gave a preview of an upcoming paper it was working on called "Fossil Fuel Subsidy Reform: Options for Inclusive, Collective Action of the WTO". The paper provided an overview of the biggest subsidies, and the ones that mattered most, as well as the key categories that collective action could best support. It broke down the category of consumer subsidies, with 30% of the total going to transport fuels, and 25% to residential consumers for areas such as electricity, household heating fuels, cooking fuels, etc. For

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<sup>2</sup> The latest edition of the Inventory was subsequently published on 01 December 2023 and can be found [here](#). It finds that the fiscal cost of government support for fossil fuels almost doubled in 2022 to reach more than USD 1.4 trillion.

production subsidies, by far the largest category was support for oil and gas production, amounting to 15-20% in a typical year. The vast majority of that was given to increase domestic production and was not targeted towards improving security of supply or post-production liability. Those three categories represented together 70% of total global fossil fuel subsidies.

2.6. The paper also examined which categories of subsidies had the most important environmental impact. While there was evidence of which were the most polluting subsidies, the paper found that there were different costs and benefits between subsidies. This suggested that breaking down the problem into categories would be helpful. For example, it was clear that subsidies to coal had outsized adverse impacts as compared to their expected benefits and should be a priority for a reform. Finally, the paper analysed how to undertake reform by looking at the problem through the lens of these key categories. Recommendations were to follow as the paper was finalised.

2.7. In response to a question from a delegation, the OECD noted that it was too early to analyse how many of the measures introduced in 2022 had built into their design a path for their reduction or removal in response to changes in circumstances. There were a lot of measures introduced in late 2021, some continued in 2023, but it seemed that a large number of them would end in 2023. The question then was whether energy prices would remain high in 2024 and if so, how governments would decide to respond to this.

### 3 PROGRESS ON DEVELOPMENT OF CONCRETE OPTIONS

3.1. As foreshadowed in the June 2022 Ministerial Statement, co-sponsors had been working to build on the discussions during the first three meetings to elaborate concrete options to advance fossil fuel subsidy reform at the WTO. These efforts had grouped next steps under the three pillars that had been the focus arising from the FFSR Initiative's High Level Work Plan to date. These were (i) enhanced transparency; (ii) temporary crisis measures; and (iii) categorisation of the most harmful fossil fuel subsidies – to underpin subsequent identification of pathways to address these categories. Inter-woven within the specific steps under consideration to advance work under the three pillars were the important social and development considerations also highlighted as part of the High-Level Work Plan.

3.2. The next steps on these concrete options were broken down into two stages: (i) a small number of actions for possible delivery by the 13th WTO Ministerial Conference (MC13), taking into account the short time now remaining until MC13, and (ii) setting out a post-MC13 work programme to support more advanced outcomes by MC14.

3.3. First, on **enhanced transparency**, there were three main ideas for the next steps:

1. Steps co-sponsors and other interested Members could take collectively and individually to make fuller use of the **Trade Policy Review** mechanism to enhance transparency with regard to fossil fuel support measures. These included:
  - a. developing a short list of questions for regular use in Trade Policy Reviews;
  - b. looking to take a lead through the kind of information included in their own Trade Policy Review reports; and
  - c. championing inclusion of such information in Trade Policy Review documentation when the TPR mechanism is next reviewed;
2. Advocating a fuller examination of fossil fuel subsidy issues as part of the programme of re-invigoration of the **Committee on Trade and Environment**, including in upcoming **CTE thematic discussions**.
3. Extending the analysis already undertaken to identify the kind of information on fossil fuel subsidies and fossil fuel subsidy reform available through Member Trade Policy Reviews to **other WTO sources**, including notifications and monitoring reports, and from **other international processes**, including the UN FCCC, UNEP and the OECD.

3.4. Second, on **crisis support measures**, there were also three main ideas:

1. Consolidating and expanding on information presented at earlier FFSR meetings to compile **information on recent Member experience** with the **design, review, adjustment and roll-back of temporary fossil fuel support measures** to address energy crises.
2. Undertaking **periodic reviews** of this compilation of temporary crisis measures to track progress on and **encourage efforts to reform, reduce and remove** such measures.
3. Drawing on this experience to develop a set of **practical guidelines** to help Members ensure such crisis support measures are **targeted, transparent and temporary**.

3.5. Third, on **addressing most harmful fossil fuel subsidies**, the next steps being looked at were:

1. Examining information and analysis of current forms of fossil fuel subsidies to **identify the characteristics** of fossil fuel subsidies that are **most harmful to the environment and to trade**; and working to develop a broader understanding of the particular types of subsidies of most concern, including through **focused workshops** on particular types of subsidies next year.
2. Undertaking **dedicated sessions to share experience** on approaches to fossil fuel subsidy reform, including **complementary strategies to address the needs of vulnerable social groups and wider development objectives**.
3. Identifying **existing and additional new pathways** to reform fossil fuel subsidies identified as most harmful and **consider possible timetables for phased reduction and elimination**, as well as the link to **facilitating green transition objectives**.

3.6. In the ensuing discussion, participants supported the need for **enhanced transparency**, including the use of TPRs in a more strategic manner. There was support for developing some standard questions for TPRs, discussing the structure of the Secretariat report at the next review of the Trade Policy Review Mechanism, and leading by example by including a dedicated section on FFS and FFSR in government reports. One delegation referred to the need to mainstream the issue in multilateral WTO work and pointed to the Committee on Trade and Environment as a logical forum for further thematic discussions, as well as to normalise the sharing of information on FFS and FFSR at the WTO. Participants encouraged the use of other available WTO mechanisms to increase transparency. They supported preparing a compilation of fossil fuel subsidies already notified as a starting point and encouraged collaboration among international organisations (WTO, OECD, IMF and WB) to assist with this, including through the further development of the joint Subsidy Platform.

3.7. On **temporary support measures**, participants saw value in the idea of a compilation of best practices on how the objectives of transparent, targeted and temporary measures could be achieved in practice, building on the earlier Secretariat paper. One delegation pointed out that review procedures should be an integral part of domestic regulatory frameworks and would also be very useful at the multilateral level provided all major subsidisers took part.

3.8. Participants also supported the idea of work on identification of **the most harmful fossil fuel subsidies**. One delegation also saw a need for further analytical work to examine the possible positive impacts of certain support measures on the environment, such as subsidies for public transport, or those addressing energy poverty and assisting vulnerable groups.

3.9. Co-sponsors were also keen to build more support for the FFSR Initiative. One delegation suggested that the conclusion of the Agreement on Climate Change, Trade and Sustainability (ACCTS) negotiations could serve as a benchmark for the work of the Initiative. Another delegation referred to the need for more thematic work, e.g., on vulnerable social groups and development or on subsidies for production or the use of a particular fossil fuel.

#### 4 NEXT STEPS ON FFSR AT MC13 AND BEYOND

4.1. Three outputs were being worked on ahead of MC13. These were: (i) an updated Ministerial Statement; to which it was planned to attach, (ii) a finalised "Next Steps on Concrete Options" work

programme; and (iii) a short set of standard questions on fossil fuel subsidies and fossil fuel subsidy reform for use in Trade Policy Reviews.

4.2. During 2024, it was planned to hold a combination of meetings and dedicated workshops on the areas of focus referred to above (and outlined in the work programme), like the most problematic subsidies, sectors and situations in which subsidies were being provided; as well as strategies and approaches to undertaking reform that incorporated the social and development dimensions of concern to participants.

4.3. One delegation referred to the WTO Secretariat's publication "Trade Policy Tools for Climate Action" and proposed developing an analysis of the different trade policy options, with FFSR as one of those options, including to estimate the environmental value these trade policy options could deliver. A similar analysis was envisaged by the APEC Business Advisory Council, with work like this at the WTO also helping to demonstrate that the trade community was engaged on these issues.

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