



## WTO TRADE AND ENVIRONMENTAL SUSTAINABILITY STRUCTURED DISCUSSIONS

INFORMAL WORKING GROUP ON SUBSIDIES HELD ON 18 MAY 2022 (15:00-18:00)

### *Summary of discussions<sup>1</sup>*

#### **1 Introductory remarks by the facilitator**

1.1. The facilitator of the Working Group on Subsidies Sveinn K. Einarsson (Iceland) recalled that in the TESSD Ministerial Statement (WT/MIN(21)/6/Rev.2), co-sponsors had agreed to support continued discussions on the environmental effects and trade impacts of relevant subsidies and the role of the WTO in addressing these. Further, the TESSD Work Plan for 2022 had presented three guiding questions for discussions on subsidies: (i) how the environmental effects and trade impacts of relevant subsidies could be identified; (ii) what information existed to better understand these impacts and where information gaps existed; and (iii) what opportunities existed to address the environmental impacts of subsidies at the WTO.

1.2. The facilitator recalled that the International Institute for Sustainable Development (IISD) had made two overview presentations on fossil fuel subsidies and agricultural subsidies at the previous TESSD meeting on 31 March and 11 April 2022. On fossil fuel subsidies, research had indicated that subsidies for fossil fuels globally largely exceeded those for renewable energy. The presentation on agricultural subsidies had provided estimates on the amounts of global subsidies, their global and specific environmental impacts, and opportunities to repurpose these towards more positive environmental outcomes. Several Members had expressed interest in different types of subsidies which could be covered and had pointed to specific challenges arising from those.

#### **2 Presentation by the Organisation for Economic Co-operation and Development (OECD)**

2.1. The representative of the Organisation for Economic Co-operation and Development (OECD) provided an overview of the OECD Inventory of Support Measures for Fossil Fuels, methodologies for evaluating fossil fuel subsidies and highlighted existing information and information gaps relating to fossil fuel subsidies. According to the OECD, the following questions needed to be addressed when assessing fossil fuel subsidies: (i) What constitutes a fossil fuel subsidy? (ii) How can the extent to which a government intervention confers a benefit to fossil fuel users or producers be measured? (iii) What kind of subsidies can be considered "inefficient"? and (iv) to what extent do fossil fuel subsidies encourage "wasteful consumption"? Based on peer review by Peru, Italy, Germany and Mexico, the OECD noted that there were different views regarding what constituted an inefficient subsidy, which in turn posed challenges to collective commitments to fossil fuel subsidy reforms (FFSR).

2.2. According to the OECD, FFSR could make use of currently available tools, including the OECD Inventory of Support Measures for Fossil Fuels, which identified, documented, and estimated individual policy measures that supported the production and consumption of fossil fuels. This database covered more than 1,300 individual measures (mostly direct budgetary transfers and tax expenditures). It was suggested that reporting on intervention which benefitted fossil fuel users and

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<sup>1</sup> This summary, prepared and circulated under the facilitators' responsibility, is being shared with a view to providing delegations with a record of the discussions. It provides a non-exhaustive, illustrative review of the issues addressed by Members at the meeting.

producers would be a first step to enhance transparency. Periodic peer reviews (or self-reported progress) could also be a useful tool to enhance transparency.

### **3 Presentation by the United Nations Environment Programme (UNEP)**

3.1. The representative of the United Nations Environment Programme (UNEP) presented a joint report with the Food and Agricultural Organization of the United Nations (FAO) and the United Nations Development Programme (UNDP) titled "A multi-billion-dollar opportunity: Repurposing agricultural support to transform food systems". According to the report, food systems supported the achievement of at least 12 Sustainable Development Goals (SDGs), including eliminating poverty (SDG 1) and food insecurity and malnutrition (SDG 2). However, government agricultural support policies were not fit for today's food systems. The report focused on public policy measures targeting agricultural producers, both in the form of price incentives and fiscal subsidies.

3.2. Global agricultural support averaged around USD 650 billion every year. Support varied significantly by country and the impacts of removing agricultural support measures would not be uniform across countries or even groups of countries. Governments adopted a range of measures to support agriculture to bolster economic growth, reduce poverty and improve food security. However, in many cases, agricultural policies had incentivized farming practices, production systems and commodities that were potentially harmful to the environment, nutrition and health, working against efforts towards a sustainable, resilient and inclusive food system. According to the report, price incentives or coupled subsidies (on inputs such as pesticide or fertilizers or output subsidies e.g. those identified as emission-intensive commodities) were the most trade-distortive and environmentally and socially harmful, while de-coupled subsidies and general sector support were the least distorting. It was underlined that no 'one-size-fits-all' strategy existed for repurposing agricultural support. Any such effort would be dependent on a range of factors and country-specific circumstances. Further, such strategies needed to consider ways to mitigate negative impacts, especially for vulnerable groups.

3.3. Several Members took the floor to present questions and comments. One Member asked whether the OECD collected data across the complete value chain or limited its data collection only to the upstream stages of exploitation and extraction. Another Member enquired whether "price support" mentioned in the UNEP report was based on the OECD price support estimates, or if UNEP had conducted a separate analysis. The representative of the OECD responded by noting that data was collected across the complete value chain as far as possible including, for instance, from budgetary reports. However, many measures were not well documented and therefore some measures were not accounted for. The representative of the UNEP mentioned that price support estimates used in the report were similar to those of OECD, but still displayed some differences as they were based on FAO-OECD-World Bank data sources.

### **4 Exchange of views by Members**

- How could the environmental effects and trade impacts of relevant subsidies be identified?
- What information existed to better understand these impacts and where were there information gaps?

4.1. Fourteen Members took the floor under this item.<sup>2</sup> Most Members agreed that this working group could play a positive role in demonstrating the impact that subsidies can have on the environment. Some Members underlined that discussions on agricultural subsidies in TESSD should complement existing WTO disciplines on subsidies, ongoing work in specialized committees such as the Special Session of the Committee on Agriculture (COA-SS), as well as parallel discussions on FFSR. One Member noted that the ongoing work on agricultural subsidies at the COA was technically different from the discussions taking place in TESSD and would not, in principle, duplicate the work. This Member suggested that some of the discussions taking place in TESSD could support ongoing work in the COA-SS.

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<sup>2</sup> Australia, Brazil, Canada, China, Colombia, Costa Rica, European Union, Japan, New Zealand, Paraguay, Saudi Arabia, Switzerland, United Kingdom, and United States.

4.2. Members broadly supported having discussions on subsidies relating to agriculture. A number of Members noted that industrial subsidies should also be discussed in TESSD. Challenges faced by developing countries were also raised, with one Member emphasizing that environment measures should not become an obstacle to trade through burdensome requirements, and another Member noting that many developing countries did not have the capacity to subsidize agriculture. One Member, however, noted that discussions on FFSR should take place under the respective initiative.

4.3. According to one Member, a subsidy was considered harmful if negative environmental impacts increased due to the existence of the subsidy. Assessing the environmental impact of subsidies should also consider the related regulatory framework and account for development and social impacts. Another Member highlighted that non-trade or production distorting agricultural subsidies could also produce net-negative environmental effects. It noted that Members would benefit from a broad and transparent debate on the complex issues relating to sustainability in agriculture in TESSD. A Member stated that TESSD co-sponsors should consider how environmental measures negatively impacted trade and were burdensome to developing countries.

4.4. A Member stated that it saw no reason to prioritize subsidies in agriculture over industrial subsidies. In its view, industrial subsidies that led to overcapacity had a large effect on trade and the environment, particularly in emissions-intensive sectors such as steel. While reducing the harmful effects of agricultural subsidies was important to achieve the SDGs and realize a sustainable food system, the Member noted that the agricultural sector needed to stabilize food production to eradicate hunger. Another Member also noted that the use of fossil fuels in industrial processes was one major source of emissions.

4.5. Two Members stressed the importance of transparency. One Member stated that increased transparency on all kinds of subsidies, including fossil fuel subsidies and agriculture subsidies, was crucial to assess the tangible impact of policies on the environment. Another Member noted that transparency was a fundamental first step in enhancing understanding of environmentally harmful subsidies. Evidence-based analysis of their effects could help to improve subsidy design and minimize negative externalities.

4.6. One Member noted that methodologies for addressing the concept of fossil fuel subsidies internationally could be construed to mean anything up and down the supply chain that could potentially encourage the production or consumption of fossil fuels. These broad understandings undermined the goal of such a discussion, which was to look at those subsidies that applied directly to the production or consumption of fossil fuels.

4.7. Two Members highlighted the role that TESSD could play in examining agricultural subsidies. One Member suggested that TESSD could be a forum to examine existing studies relating to agricultural subsidies and the environment that had been undertaken by international institutions, as well as current practices adopted by Members.

4.8. A Member suggested that the OECD develop a list based on data contained in its inventory. This list could be a useful place to start or promote further domestic policy work. The list could be purely factual, highlighting the most common measures, or perhaps grouping measures by those that could be identified as the most environmentally harmful or trade distorting.

4.9. A Member emphasized that discussions on agricultural subsidies for sustainable agriculture should take into account each country's climatic and geographical conditions in the design, adoption and implementation of policies. Further, sustainability in agriculture should consider the role of technical standards. According to this Member, some Members had been imposing non-tariff barriers that were not rooted on scientific-evidence by international standard-setting organizations, as mandated by the SPS Agreement. It also noted that developing countries did not have the same fiscal capacity to subsidize their agricultural sectors.

4.10. A Member stated that data was important to advocate for change by demonstrating the negative effects of fossil fuel subsidies. Noting that the OECD inventory was a valuable tool to understand the current status of fossil fuel subsidies, it stated that TESSD could enhance transparency regarding fossil fuel subsidies.

## **5 Concluding remarks by the Facilitator**

5.1. The facilitator thanked Members for their interventions, which highlighted opportunities to discuss a broad number of sectors to which discussion on subsidies would be relevant. He also emphasized that Members should ensure that assessments were inclusive and targeted. The facilitator concluded the meeting by encouraging Members to focus on highlighting areas where TESSD could contribute the most to these debates, in particular, for developing countries so that they could both engage and benefit from these discussions.

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