



Fossil Fuel Subsidies and Trade: Understanding the linkages

Why Reform Fossil Fuel Subsidies?

Fossil fuel subsidies (FFS) lower the price of the production and consumption of fossil fuels. As a consequence, FFS distort markets and hold us back from sustainable development. FFS encourage wasteful consumption, increase local pollution, contribute to climate change, disadvantage clean energy technologies and drain scarce public resources that could be better directed to sustainable development goals.

The impacts of FFS are broad:

- **Trade:** FFS affect prices, and thereby distort trade patterns and investment decisions.
- **Economic:** The scale of FFS is massive. In 2015 alone, they represented over USD 425 billion in government expenditure.¹ Removing these subsidies would lead to substantial fiscal savings and free up resources for governments to implement the Sustainable Development Goals (SDGs).
- **Environmental:** Fossil fuel subsidies lock us into a high-carbon future. Removing fossil fuel subsidies for consumption alone could lead to the reduction of global emissions by between 6 per cent to 8 per cent by 2050.²
- **Social:** Subsidies are often socially regressive and tend to disproportionately benefit wealthier consumers, contrary to often-stated subsidy policy objectives. Gasoline subsidies are especially regressive, with more than 80 per cent picked up by the top two quintiles of society.³ Reducing fossil fuel subsidies would free up resources for better targeted social spending.
- **Sustainable energy:** Artificially lowering the cost of fossil fuel consumption and production reinforces and incentivizes investment in fossil fuel-based technologies over alternative renewable energy solutions.

¹ International Energy Agency. (2016) *World energy outlook 2016*. Paris: IEA/OECD. <http://www.worldenergyoutlook.org/publications/weo-2016/>; Lang, K., & Wooders, P. (2010). *A how-to guide: Measuring subsidies to fossil-fuel producers*. Retrieved from http://www.globalsubsidies.org/files/assets/pb7_ffs_measuring.pdf.

² Burniaux, J. & Chateau, J. (2014). Greenhouse gases mitigation potential and economic efficiency of phasing-out fossil fuel subsidies. *International Economics*, 140, 71-88. Retrieved from <http://dx.doi.org/10.1016/j.inteco.2014.05.002>.

³ Coady, C., Flamini, V. & Sears, L., (2015). *The unequal benefits of fuel subsidies revisited: Evidence for developing countries*. Paris: IMF. Retrieved from <https://www.imf.org/external/pubs/ft/wp/2015/wp15250.pdf>.

Why are Fossil Fuel Subsidies a Trade Issue?

- **The scale of FFS is massive.** At USD 425 billion in 2015, fossil fuel subsidies represented over 20 per cent of the value of internationally traded fuels in that same year, more than 12 times the subsidies to fisheries (estimated at USD 35 billion) and are almost three times higher than subsidies to renewable energy (USD 150 billion in 2015, according to the International Energy Agency [IEA]).
- **FFS impact trade:**
 - FFS **affect prices and distort global markets**, creating inefficiencies and unfair competition, including stunting growth in renewable energy;
 - FFS **affect trade and technology transfer** to an extent that can be larger, for example, than patent protection;⁴
 - FFS **facilitate illicit trade flows**, fuel smuggling and adulteration that result in lost domestic revenues.
- **Trade can support the reform of FFS.** Trade has been recognized as an enabling force for sustainable development and features in the Agenda 2030 through several SDGs, especially SDG17.

Why the World Trade Organization and Fossil Fuel Subsidies?

- Reform of FFS **merits the development of trade rules**, as is recognized in the EU-Singapore free trade agreement (FTA) and in the Fisheries Subsidies negotiations.
- Reform of FFS is consistent with the **WTO's objective of sustainable development**.
- The WTO is the **preeminent multilateral forum for disciplining subsidies** and has a range of potential models to draw from across the Agriculture Agreement, Agreement on Subsidies and Countervailing Measures (ASCM) and the Fisheries Subsidies negotiations.
- The WTO has comprehensive **transparency and notification frameworks** that can reach beyond other voluntary mechanisms.
- The WTO has **broad membership**, encompassing all regions and all levels of development. The WTO provides an opportunity to provide coordinated and coherent international efforts to reform such subsidies.

The Friends of Friends of Fossil Fuel Subsidy Reform

- The Friends of Fossil Fuel Subsidy Reform is an informal group of non-G20 countries aiming to build political consensus on the importance of fossil fuel subsidy reform. Established in June 2010, members are Costa Rica, Denmark, Ethiopia, Finland, New Zealand, Norway, Sweden, Switzerland and Uruguay.

⁴ Hall, B.H. & Helmers, C. (2010). The role of patent protection in clean/green technology transfer. *Santa Clara High Technology Law Journal*, 26 (4): 487-532.