

Five Ways to Address Fossil Fuel Subsidies at the WTO*†



Goal	Possible Pathways	Potential Benefits	Considerations
1. Promote Capacity Building	Capacity building and/or technical cooperation on how to identify, measure and evaluate fossil fuel or wider energy subsidies	Members’ understanding of energy subsidies, their trade and environmental impacts, and anticipated effects of reform is improved	The WTO’s Economic Research and Statistics Division could be requested to supply relevant information
	Capacity building and/or technical cooperation on lessons from countries’ efforts to reform fossil fuel or wider energy subsidies	Members’ knowledge on the circumstances under which subsidy reform is appropriate, is successful and how it can support countries’ wider development goals and plans is enhanced	This approach should include consideration of how the poor and vulnerable in society can be supported after reform. It could also include a focus on vulnerable sectors of the economy (e.g. energy-intensive, trade-exposed sectors)
2. Enhance Transparency	Plurilateral or multilateral commitments to report fossil fuel subsidies (FFS) to a common template under the ASCM	<ul style="list-style-type: none"> Enhanced notifications with information presented in a user-friendly format Potential barriers of ambiguous requirements and other technical difficulties from the use of the current template could be overcome through the use of an improved notification template 	<ul style="list-style-type: none"> This approach would be likely to require a group of “first movers” to begin enhancing their notifications. For an example of a potentially suitable template, see the Global Subsidies Initiative’s Model WTO Notification Template, and its application to Germany as a test case
	Unilateral or plurilateral commitments to include FFS within the scope of countries’ Trade Policy Reviews	The scope of information reported and its user-friendliness are improved, within at least some of the Trade Policy Review Mechanism (TPRM) reports undertaken within the WTO	<ul style="list-style-type: none"> The Trade Policy Review Body could instruct that all WTO Secretariat TPRM reports include a section on FFS, and could extend this to include other energy subsidies and more material on fossil fuels in general (for example: the value of trade of fossil fuels; the emissions of greenhouse gases from their combustion) WTO Members could address whether and how other sources of information could be brought into the process, e.g., countries’ peer and self-reviews under the G20 and APEC, and third-party material. Such material could be classified as official, requiring it to be considered by the WTO Secretariat in preparing its TPRM reports Civil society organisations and other stakeholders could be granted observer status at TPRM meetings

<p>3. Introduce Pledge, Report, and Review</p>	<p>WTO Members make pledges to eliminate or reduce their FFS, and agree to report progress and review each other's progress</p>	<p>A mechanism to enhance progress within the WTO is anchored through commitments to action, with WTO Members peer reviewing each other's reports to share lessons and increase ambition</p>	<p>This approach:</p> <ul style="list-style-type: none"> would build on the ASCM could start as a plurilateral initiative could link into other commitment and review processes, for example under the G20 and APEC <p>The fisheries subsidies and Environmental Goods Agreement discussions and proposals may provide useful lessons and ideas</p>
<p>4. Provide Interpretation of Rules</p>	<p>WTO Members negotiate an understanding of fossil fuel or wider energy subsidies under ASCM Article 1.1, 1.2 or 2. May need to focus on a narrow subset of subsidies in order to conclude the negotiation</p>	<ul style="list-style-type: none"> Clarity is provided on which energy subsidies are subsidies under ASCM Article 1.1 and potentially also Articles 1.2 and 2, noting that the understanding could not give a generic assessment of whether they would cause adverse trade effects Members obtain guidance on if and how environmental effects of energy subsidies should be accounted for 	<ul style="list-style-type: none"> Such an understanding could cover specificity under the ASCM It could also include guidance on the energy subsidy types which are defined as subsidies under the ASCM. As an example of a list of subsidy types, IISD's GSI has produced a list of approximately 30 types of energy subsidies which it considers would fall under ASCM Articles 1.1(a)(1) and 1.1(a)(2). These subsidy types are not necessarily specific nor would they necessarily cause adverse trade effects: evaluation would come later in the process The Doha Declaration on the TRIPS Agreement and Public Health could inform such an approach
	<p>Agreement by WTO Members to discuss fossil fuel or wider energy subsidies as a relevant part of the mandate of the Committee on Trade and Environment (CTE)</p>	<p>Clarity is provided on if and how the CTE should play an extended role in debating how FFS could be reformed within the WTO and how clean energy subsidies could be treated</p>	<p>It is noted that WTO Members' positions with regard to whether there should be FFS discussions under the CTE have formed a broad spectrum</p>
	<p>Following an assessment of how well trade rules in general support sustainable development, WTO Members could negotiate an agreement to strengthen this support. Could include a Declaration by WTO Members underscoring their political support for this topic and/or highlighting their intent to take this issue forward through legislation</p>	<p>The relationship between the objectives of sustainable development and ensuring trade is as free as possible within the WTO's rules is further clarified</p>	<p>Approaches could include:</p> <ul style="list-style-type: none"> A reaffirmation and possible extension of the WTO preamble text Declarations by WTO Members affirming e.g.: <ul style="list-style-type: none"> the 2030 Agenda, the Paris Agreement and the Addis Ababa Action Agenda language from the G20 and APEC commitments to reforming inefficient FFS

	Affirmation that trade rules in general support sustainable development, potentially followed by an agreement to strengthen this support. Could include a Declaration by WTO Members	Clarification of the relationship between the objectives of sustainable development and the support of free trade within the WTO's rules	Approaches could include: <ul style="list-style-type: none"> • An extension and reaffirmation of the WTO preamble text • Declarations by WTO Members affirming e.g.: <ul style="list-style-type: none"> ○ the 2030 Agenda, the Paris Agreement and the Addis Ababa Action Agenda ○ provisions of the G20 and APEC commitments to reforming inefficient FFS
5. Change Existing Rules	Categorisation of certain FFS as prohibited, using a trade and/or an environmental effects rationale. Could be combined with classifying certain clean energy subsidies as non-actionable	WTO Members obtain guidance on how the energy subsidies covered would be treated under WTO rules, and which of them could be disciplined	A "traffic-light approach" could be used, noting the precedent of the agricultural subsidies and fisheries subsidies discussions and negotiations
	Adoption of an "Energy Sector Agreement" that addresses fossil fuel and clean energy, including how energy subsidies should be categorised and disciplined (see option directly above)	Energy is a key sector for the delivery of the Sustainable Development Goals (SDGs) and the Paris Agreement on climate change. An "Energy Sector Agreement" would give WTO Members guidance on how to assess competing energy forms and help ensure international energy governance is aligned with the SDGs	<ul style="list-style-type: none"> • This approach could include guidance of how non-internalised external costs relating to local air pollution and the emission of greenhouse gases from competing energy sources should be assessed (i.e. in addition to the comparison of their financial performance) • Beyond subsidies, other elements of such an Agreement could include <i>inter alia</i>: "creation of a check-list of core and related energy services that would facilitate making additional commitments; and redrafting of Article X:6 of the revised GPA 2007 to include a more explicit recognition of climate-related measures" (Cottier et al, 2010, p. 21)

* Any successful effort to address fossil fuel subsidies through the international trade system will need to adequately address the special circumstances of developing countries. That might involve special and differential treatment provisions, including potential exemptions and carve-outs for development needs, including enhancing energy access.

† Many of the suggested approaches could also be (initially) taken forward through bilateral or regional trade agreements.

This research draws on discussions at a Climate Strategies, Stockholm Environment Institute and International Institute for Sustainable Development workshop: "[Reforming Fossil Fuel Subsidies through the WTO and International Trade Agreements](#)," held in May 2017 at WTO headquarters in Geneva. It forms part of a larger Climate Strategies project: "[Making the International Trade System Work for Climate Change](#)."