

# Deepdive: Development dimensions of FFSR

## Some issues for consideration

Fossil Fuel Subsidy Reform (FFSR) initiative meeting  
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WTO Room D



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# FFS and the role of governments

## Provide Public Goods and Services | Support Economic growth

*Many years ago, before our awareness of climate change, FFS was considered as a public good*

## Address and reduce externalities | Ensure fair competition

*We now understand that fossil fuel use has substantial external costs and that FFS slow our transition to renewable energy use, thus FFS are increasingly seen as a public bad*

- *This shift in perception is not yet universal*
- *Government roles in opposition to one and other*

# FFS come in many different colors

Direct subsidies | Indirect subsidies | Explicit subsidies | Implicit subsidies

Production subsidies | Consumption subsidies ...

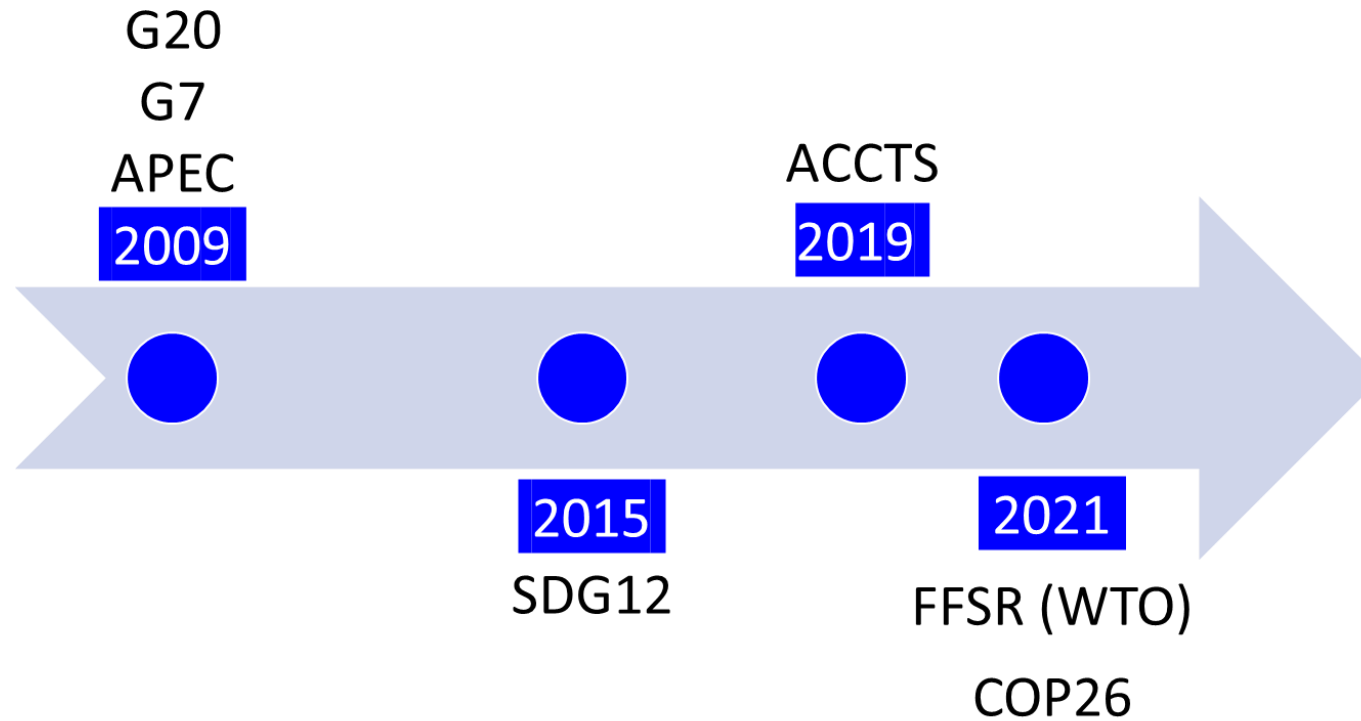
*Although each of these subsidies enter the economy in different ways, they all lead to **overconsumption of fossil fuels, reduced investment in clean energy, and higher greenhouse gas emissions***

*It is not possible to simply classify some colors of subsidies as being “efficient” and others as being “inefficient”, for example...*

→ *Production subsidies - trickle-down effect to lower prices for consumers*

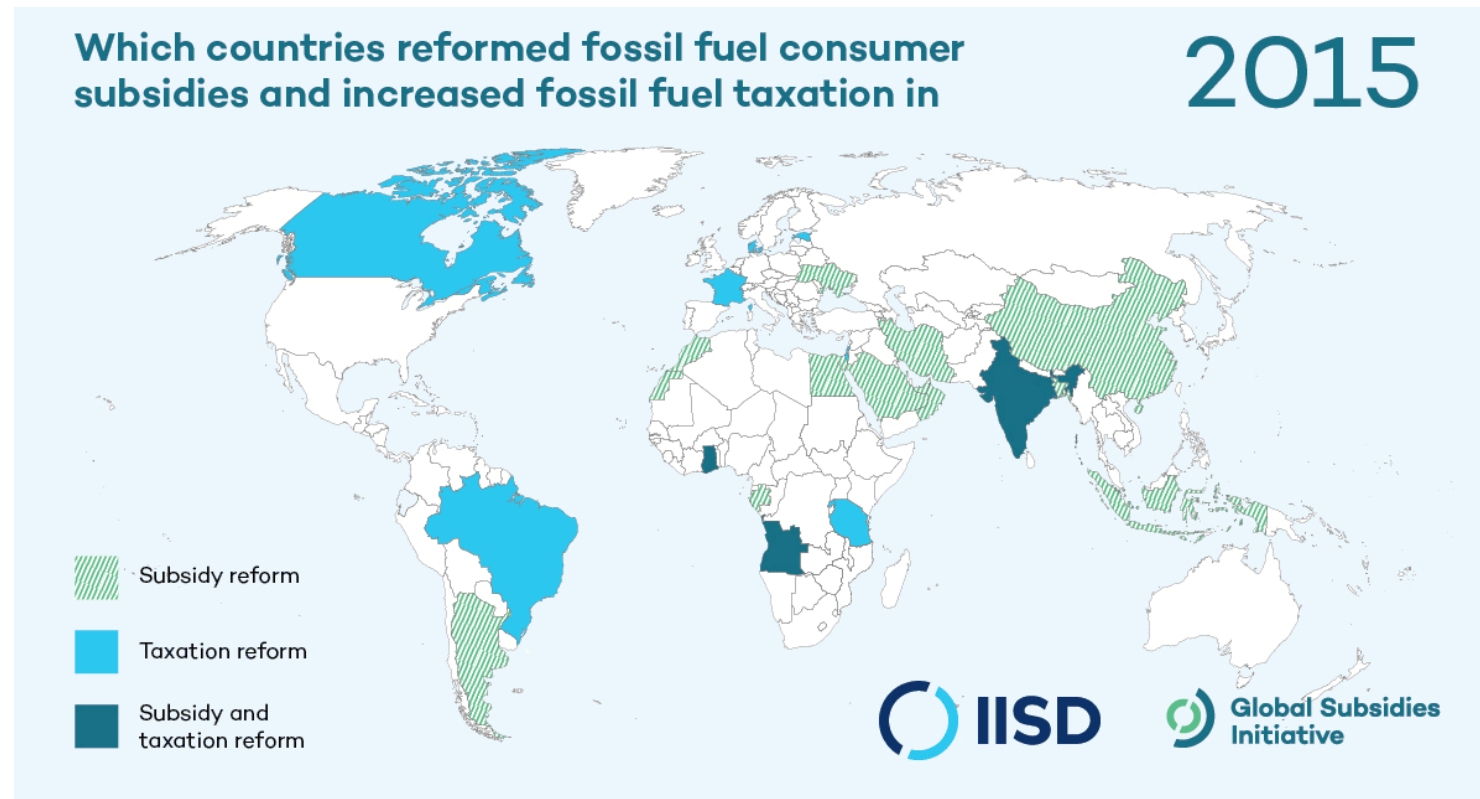
→ *Consumption subsidies - trickle-up effect for producers to increase production*

# FFS Reform processes



- *All seek to rationalize and phase out inefficient fossil fuel subsidies*
- *Many call for provision of targeted support for the poorest populations*
- *No internationally agreed definition of “inefficient fossil fuel subsidies”*

# FFS Reform progress



Keep in mind that many of these reforms have been made by governments for budgetary reasons and not to advance climate change mitigation objectives, and most reforms to date are limited in scope and scale.

... only 15 countries mention FFSR actions in their UNFCCC NDCs

# The FFSR imperative

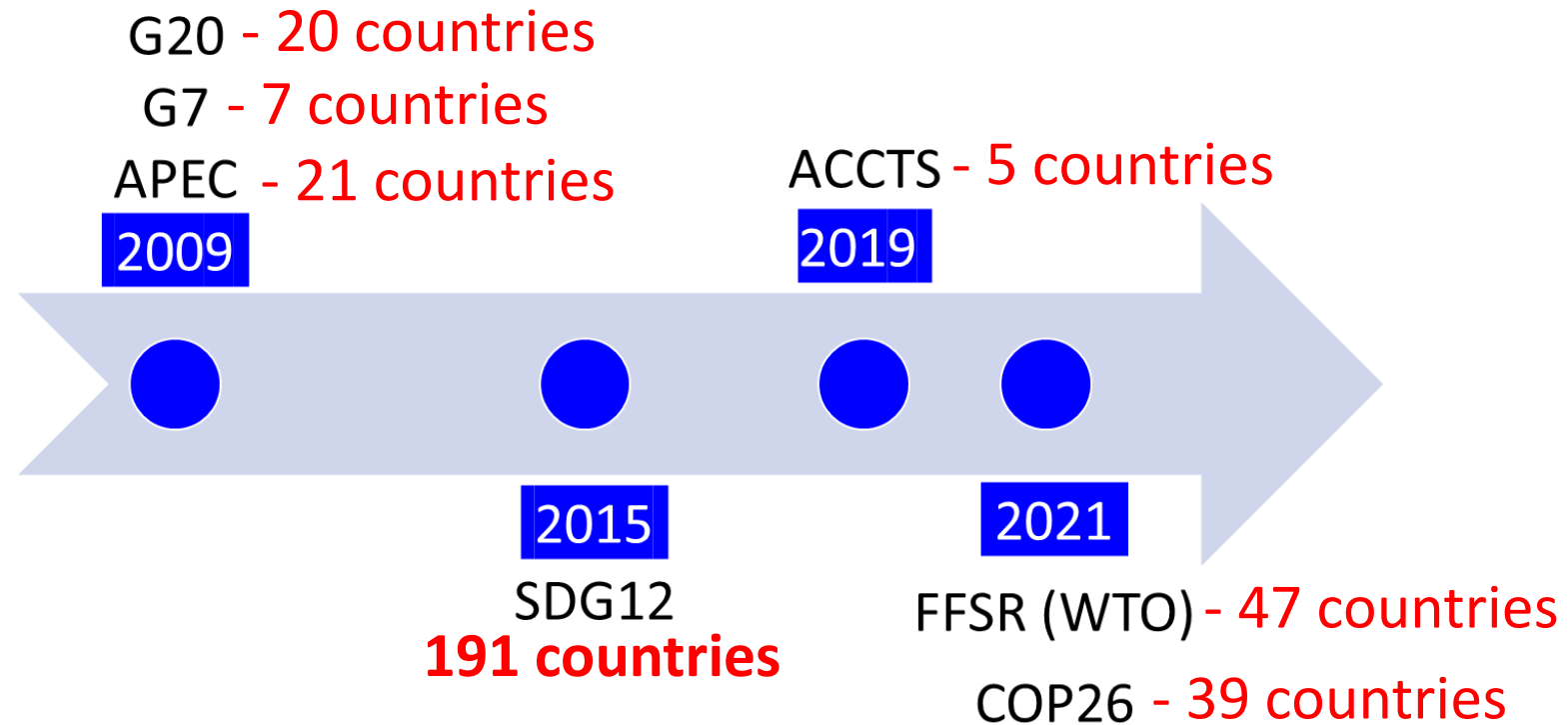
Reducing the future extent of climate change requires more ambitious and universal action on FFSR

*According to the IPCC 6<sup>th</sup> Assessment Report (2022) ...*

**Fossil fuel subsidy removal** today is projected by various studies to **reduce global GHG emissions by up to 10 % by 2030.**

**Moreover, a subsidy swap** (i.e., reallocation FFSR savings to subsidies supporting renewable energy) could **further reduce GHG emissions by a comparable amount** according to research by IISD.

# FFS Reform : what requirements to meet ?



→ *WTO FFSR efforts will likely need to satisfy the FFSR requirements set forth in SDG12 in order to attract the extended support of all WTO members*

# FFS Reform : what requirements to meet ?

## SDG 12

### Target 12.C

Rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption by removing market distortions, in accordance with national circumstances, including by restructuring taxation and phasing out those harmful subsidies, where they exist, to reflect their environmental impacts, taking fully into account the specific needs and conditions of developing countries and minimizing the possible adverse impacts on their development in a manner that protects the poor and the affected communities



# Development concerns of FFS Reform in developing countries

*Developing countries have concerns regarding fossil fuel subsidy reform, as they often rely on subsidies to provide affordable energy to their populations and support economic growth.*

- ① **Affordability** : Fossil fuel subsidies are often used to keep energy prices low for low-income households and businesses. Without these subsidies, higher energy prices would strain household budgets and make it more difficult for businesses to remain competitive.
- ② **Economic growth** : Fossil fuels are a key driver of economic growth in many developing countries. Reducing subsidies for these fuels could reduce economic activity and slow down growth.

# Development concerns of FFS Reform in developing countries

- ③ Energy access : Fossil fuel subsidies are often used to provide access to energy in remote and rural areas where other sources of energy are not available. Reform of these subsidies could reduce access to energy for people and businesses in these areas.
- ④ Energy Alternatives : In many developing countries, renewable energy sources are still in the early stages of development and may not yet be able to replace fossil fuels as a source of energy. It is thus difficult for governments to transition away from fossil fuels and reduce subsidies without compromising energy access and economic growth.

# Development concerns of FFS Reform in developing countries

- ⑤ Political resistance : Reducing or eliminating subsidies can be politically sensitive, and there is a risk of protests and civil unrest by citizens and interest groups who are opposed to the reforms.
- ⑥ CBDR-RC : Developing countries continue to call for equity in climate action, and thus many will not implement subsidy reforms until developed countries take the lead and provide financial and technological assistance for developing countries to implement subsidy reform. They also emphasise governments need to act based on the respective capacities.

To gain wider support among developing country members, particularly low-income countries, the WTO FFSR initiative needs to address these concerns

