Exploring the Trade Impacts of Fossil Fuel Subsidies

An overview of IISD's report

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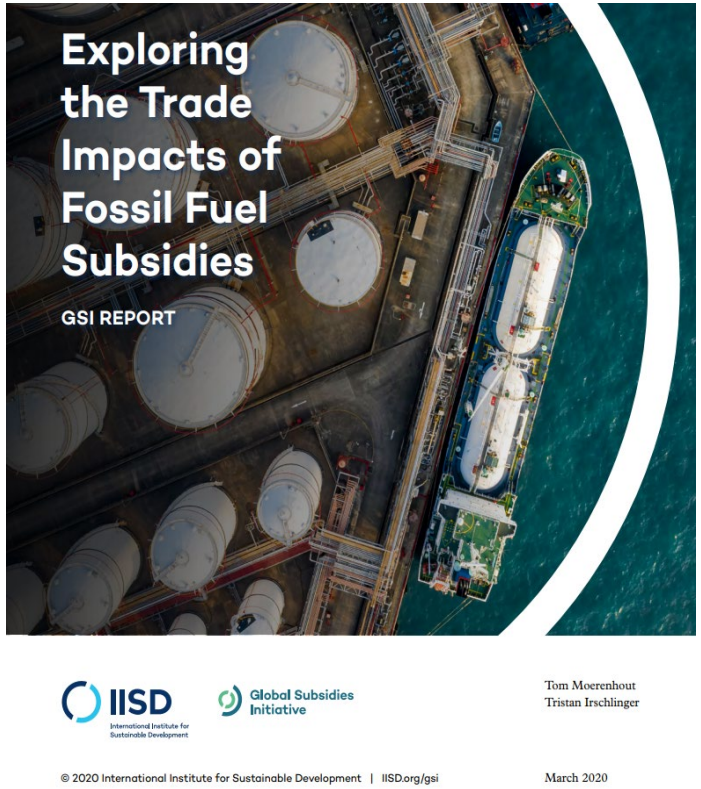
A few preliminary remarks

- Beyond their concerning environmental impacts, the report highlights the ways in which FFS can impact **competition and trade**
- Provides a **conceptual mapping** of such impacts, some empirical evidence illustrating their likely scale, and summarizes options for enhanced cooperation on FFSR at the WTO
- No direct empirical evidence of specific trade impacts
- The report: https://www.iisd.org/publications/report/exploring-trade-impacts-fossil-fuel-subsidies



See also: Van Asselt and Moerenhout. *Fit for Purpose? Toward trade rules that support fossil fuel subsidy reform and the clean energy transition*. https://www.norden.org/en/publication/fit-purpose

Starting point: existing research

- **Existing research** on the trade impacts of FFS is **sparse**. It suggests:
    - Fuel consumption subsidies can have important trade impacts
    - Producer subsidies are used to improve the competitiveness of domestic industries on the international market
    - Pass-through effects are manifold and significant, and the trade exposure of many fuel-consuming sectors seems to indicate real trade impacts
    - The impact of reform on GDP is acknowledged, but it is hard to assess the exact impacts on the terms of trade, and over time
- Some insights exist, but there is no **general understanding** of these impacts

Direct effects, but not only

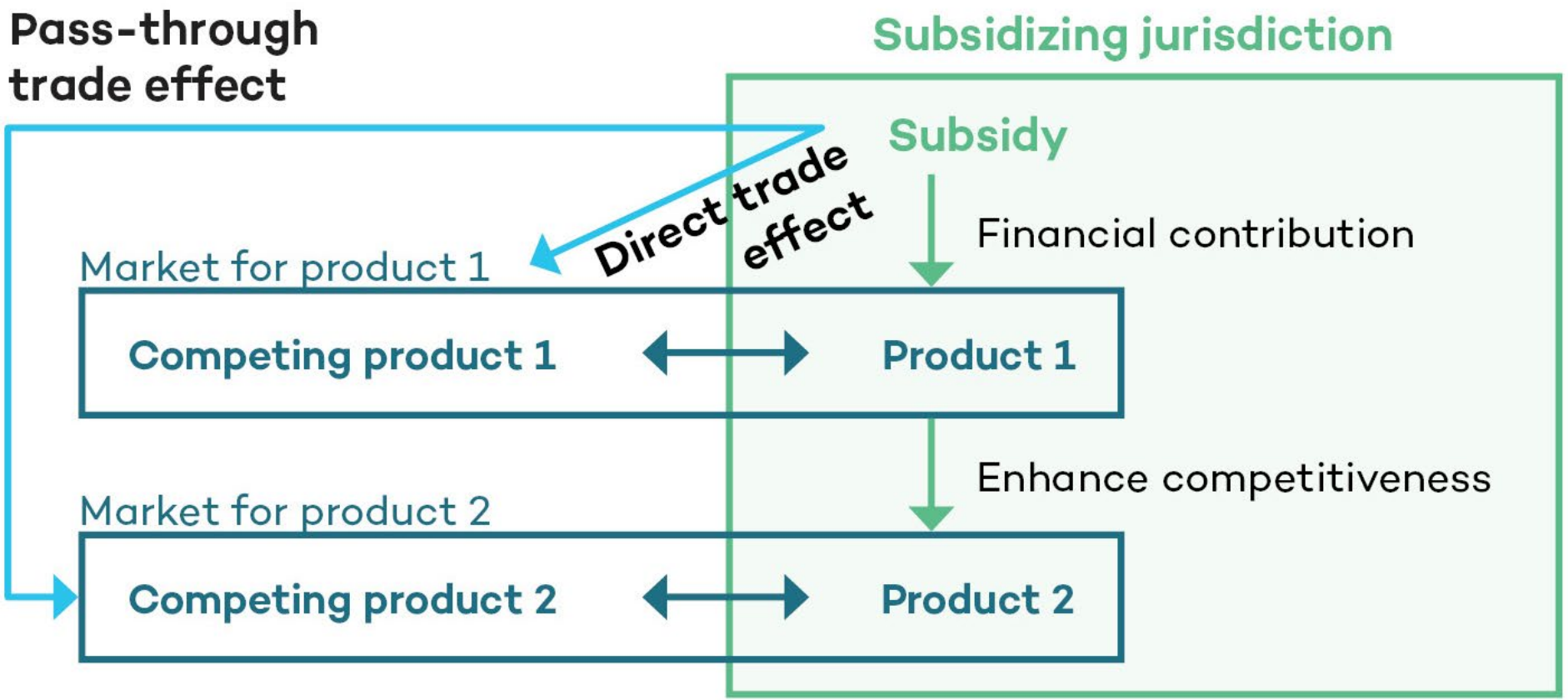
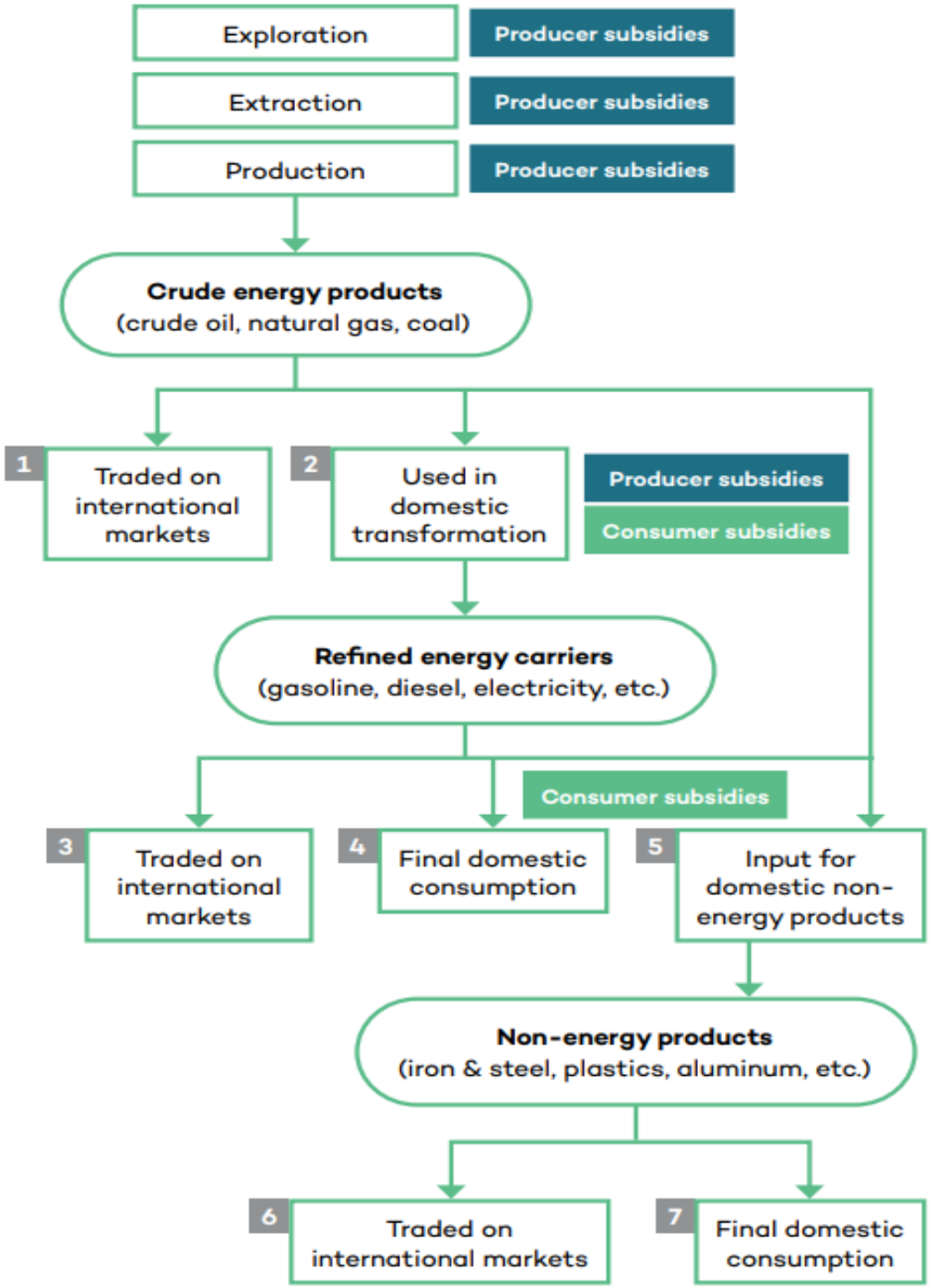


Illustration of FFS' trade impacts at various stages of value chains



Most prominent trade impacts at various stages of fossil fuel product value chains

1	Increase international market share of domestic crude energy products (+ smuggling)
2	Displace imports of crude energy products & reduce competitiveness of alternatives
3	Increase international market share of domestic refined energy carriers (+ smuggling)
4	Displace imports of refined energy carriers & reduce competitiveness of alternatives
5	Displace imports of crude and refined energy products used as input for non-energy products & reduce competitiveness of alternatives
6	Increase international market share of domestic non-energy products that rely on crude & refined energy products as input
7	Displace imports of third-country non-energy products that rely on crude & refined energy products as input & reduce competitiveness of alternatives

Affected markets and trade exposure

Affected market	Annual trade volume (% of global prod.)	Annual trade value (USD, 2018)	Competitive density	Key trade impact
Upstream oil	~ 50%	943 billion	High	Battle for market share
Upstream gas	~ 25%	299 billion	High	Battle for market share
Upstream coal	~ 16%	124 billion	Medium	Battle for market share
Electricity	Very small	35 billion	Low	Obstruction of trade
Petroleum products	~ 15%	779 billion	Very high	Battle for market share; smuggling of refined fuels
Energy-intensive industry	Industry-dependent	> 1 trillion	Very high for key industries	Battle for market share
Electricity-intensive industry	Industry-dependent	> 300 billion	Very high for key industries	Battle for market share

Source: Authors, based on statistics from the IEA (various dates, see references in above sections) and ITC (2019)

Notes: (1) Estimates of trade value represent minimum values since they are based on a conservative aggregation of HS6 product identification codes.; (2) Competitive density is about the concentration of both importing and exporting countries, with a high density (corresponding to a low concentration rate) indicating more dispersed trade; (3) Battle for market share is about the battle within markets for fossil fuels and relevant products, but also against potential alternatives such as renewable energy (for example by crowding out investment).

Options for cooperation at the WTO

- A number of options have been suggested for enhanced cooperation on FFSR at the WTO:
    - Improve **transparency**
    - Build **capacity** to identify, understand and reform subsidies
    - **Pledge** and review
    - **Clarify** how existing rules should apply
    - Negotiate new subsidy **disciplines**
- Also highlights that such options can be **combined**, including in a **staged** approach

"The various options could be combined in various ways, including by starting with options that seem to be less challenging, at least in the short term, and gradually increasing the level of ambition (Verkuijl et al., 2019). WTO members could, for example, start with efforts to increase transparency and build capacity before engaging in a voluntary pledge-and-review process and ultimately agreeing to new binding subsidy disciplines."

Key takeaways

- There are **multiple pathways** through which FFS can impact competition and trade (direct, pass-through), both on domestic and international markets

- These **trade impacts** are likely **very high**. The most affected markets (primary energy, refined energy, and energy-intensive products) represent almost 20% of global trade (3.5 tn USD) and most are highly competitive

- FFS also **undermine** the competitiveness and slows down the development of **renewable energy**, and possibly of other more sustainable products (e.g. alternative to plastic?)

- **Upstream** subsidies are likely worth particular attention, and all subsidies incentivizing **new investment and capacity** in the FFS sector will also have deep, long-term impacts

- Such trade relevance makes it even clearer why the **WTO** has a **central role** to play in FFSR

Thank You!

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