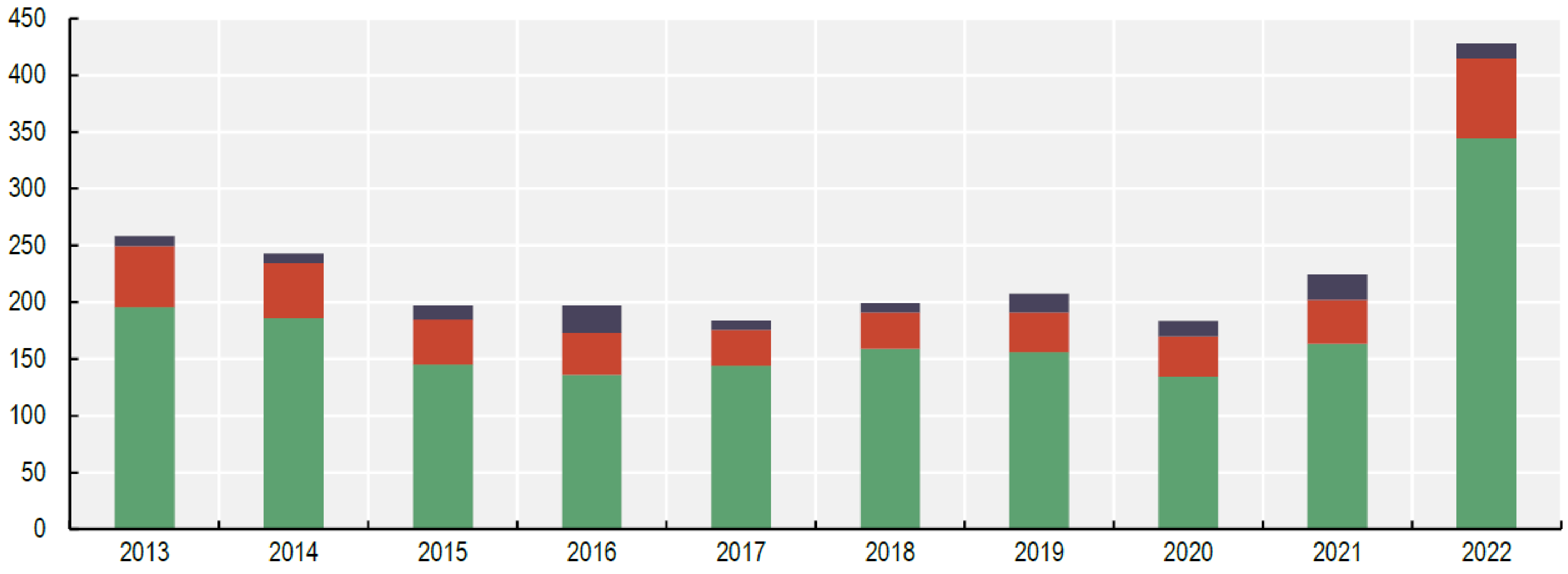
Fossil Fuel Production Subsidies

Highlights from Background Note by the WTO Secretariat

Fossil fuel production subsidies

Fossil fuels: oil, natural gas, or solid fuels (peat, lignite, sub-bituminous or brown coal, bituminous or black coal or anthracite)

Fossil fuel production subsidies: those provided to the producers of fossil fuels along all stages of fossil fuel production, including exploration, extraction, transportation and storage, refining and processing, as well as decommissioning of installations



Source: OECD Inventory 2023

Fiscal cost of support measures for fossil fuel production (OECD inventory)

- Production subsidies ranged from USD **57 billion in 2018** to USD **73.6 billion in 2022**, increasing by **23%** year-on-year
- In 2021 already support for fossil fuel producers reached unprecedented levels at USD **64 billion** – up by almost **50%** year-on-year, and 17% above 2019 levels

Fiscal cost of support measures for fossil fuel production (ctd)

Two stages of production have dominated fossil fuel subsidies over the past decade

Extraction or mining (approximately 75%)	Refining or processing (approximately 25%)	A very small share of subsidies are granted to transportation

Production subsidies account for 15-20% of the global total of fossil fuel subsidies with approximately 70% granted to petroleum and 15% to each of coal and natural gas (based on 2021 figures)

Objectives and support mechanisms

Aims	Mostly to reduce the costs of domestic producers, leading to increased production and economic activity A small number granted to increase security of supply (a range of alternatives available) or to reduce the sector's environmental impacts
Mechanisms	Direct transfers of funds, loan guarantees, government revenue foregone, and goods or services provided by governments Most commonly tax expenditures
Targeted	Tend to be targeted, typically to specific types of fuel, classes of fields or geographic areas

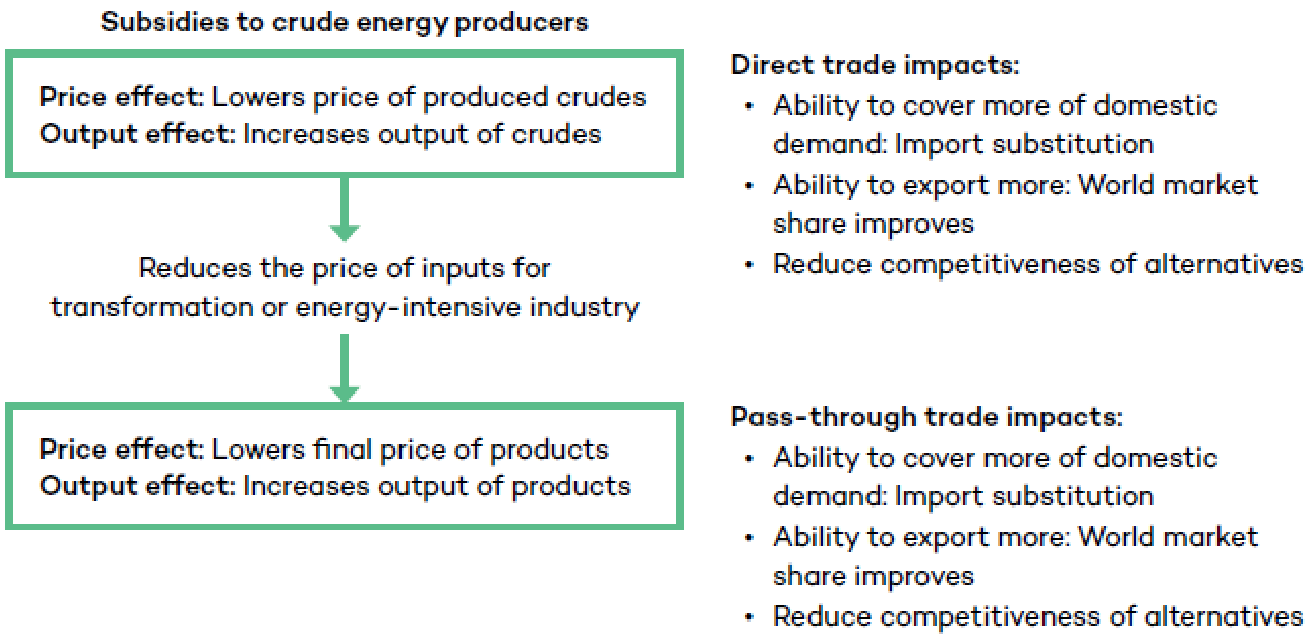
Stages of fossil fuel production and examples of government support

Access, exploration and appraisal	• Government-funded R&D for exploration technologies and processes; concessional loans to exploration companies
Development	• Tax deductions for investment in drilling and mining equipment or for the field development phase; government spending on infrastructure (ports, roads, railways and pipelines) that specifically benefits field and mine development
Extraction and preparation	• Price supports; tax and royalty exemptions linked to amount of fuel produced; government-provided insurance and indemnification for risks and damages such as oil spills and other pollution
Transport (to utilities and refineries)	• Tax exemptions related to the transport, import and export of fossil fuels; government spending and investment in infrastructure
Plant construction and operation (utilities and refineries)	• Grants and tax breaks for the construction of plants for heat and electricity generation and refineries; relief on property taxes and charges for land, water use and pollution for processing facilities; government-regulated price of feedstock (oil/gas/coal) for refining, processing, and electricity/heat generation
Distribution (to end users)	• Government grants for modernisation of distribution and transmission facilities; government spending and investment in infrastructure
Decommissioning	• Government-funded R&D for field and mine decommissioning; government assumption of liabilities or spending on field and mine decommissioning and severance packages for former employees; tax deductions for costs associated with coal mine closure or oil and gas well abandonment

Source: ODI, OCI, and NRDC 2015, Empty promises: G20 subsidies to oil, gas and coal production

Trade impacts of fossil fuel production subsidies

- **Direct effects**: affect the markets for energy commodities (and transformed energy products) through reducing producers' costs of extraction (transformation)
- **Pass-through effects**: lead to lower-cost energy products that can then be used as input in other production processes downstream
- **Impacts across markets**: result in a decreased use of like substitute products (e.g. electricity generation from renewable energy or renewable energy technology)



Source: IISD 2020, Exploring the trade impacts of fossil fuel subsidies