

E15 Engagement on the WTO in the lead up to MC11

Disciplining Fossil Fuel Subsidies: Trade Policy Options for Climate Mitigation and the SDGs

Date: 29 September 2017

Venue: Maison de la Paix, Room C1, Petale 5, Chemin Eugene-Rigot 2, Geneva

In addition to being environmentally harmful, fossil fuel subsidies depress growth, reinforce inequality, add to health hazards caused by air pollution and slow down the energy transition. The need to reform and ultimately phase out these harmful subsidies is thus urgent. The current low energy prices, combined with a universal mandate from the Sustainable Development Goals (SDGs), provide a unique window of opportunity for swift action.

Even though various international fora, such as the G7 or the G20, have pledged to phase out these subsidies, little concrete progress has however been made with respect to implementation. An ambitious, firm mandate to discipline fossil fuel subsidies is thus much needed.

The multilateral trading system has a unique role which could be leveraged in this context. With its binding nature and effective enforcement mechanism, agreeing on international rules under the WTO to effectively discipline the use of fossil fuel subsidies could make a real difference.

Assuming that sufficient political will can be mobilised, such an endeavour could usefully be pursued by developing a new legal instrument that provides disciplines on fossil fuel subsidies that effectively contribute to climate change. In fact, the current WTO Agreement on Subsidies and Countervailing Measures (ASCM) was not designed to address environmental issues, and only disciplines subsidies to the extent that they create distortions that through trade affect competitors in third countries. Therefore, a different approach using the impact of subsidies on GHG emissions as the criterion for disciplining subsidies could be explored, either inside or outside the ASCM.

For this, lessons could for instance be drawn from the fisheries negotiations in the WTO and the Agreement on Agriculture. The fisheries subsidies negotiations may serve as a good example of how to place a sustainability issue at the top of the global trade agenda. Lessons can particularly be learned in terms of raising public awareness, crafting a negotiating mandate and defining the level of ambition.

The Agreement on Agriculture, on the other hand, may provide particularly useful insights in regard to its ex-ante classification of subsidies based on their presumed impact. Such an approach would not only help restrict fossil fuel subsidies but also provide incentives to move towards cleaner energy sources by providing a safe harbour for clean energy support. Here again, however, the Agreement on Agriculture's primary reference for classifying subsidies is their trade-distorting effect. As with the SCM Agreement, an alternative approach will be required to differentiate subsidies based on their contribution to climate change.

Against this background, ICTSD, in cooperation with the World Economic Forum, is convening a third E15 engagement workshop on the issue of fossil fuels subsidies and the trade system. The workshop will offer insights into options for how to curb fossil fuel subsidies through the WTO and the steps which need to be taken in this regard, including possible actions at MC11. Discussions will be informed by brief expert presentations on possible pathways that WTO members can take to phase out subsidies for fossil fuels, drawing lessons from the fisheries negotiations and the Agreement on Agriculture.

Agenda

8:30 – 9:00 **Coffee and Registration**

9:00 – 9:15 **Welcome Remarks by the Organizer**

Ricardo Meléndez-Ortiz, Chief Executive, ICTSD

9:15-9:45 **Introduction: The Role of Subsidies in the Energy Sector**

Christine Jojarth, Lecturer, Stanford University (by video conference)

9:45 -10:45 **Session I: Disciplining the Use of Fossil Fuel Subsidies: Lessons from the Fisheries Negotiations**

Lead discussants:

Heloisa Pereira, Former Deputy Director, Department of Trade Remedies (DECOM) of the Ministry of Development, Industry and Foreign Trade, Brazil

Christophe Bellmann, Senior Resident Research Associate, ICTSD

10:45– 11:15 **Coffee/tea**

11:15 - 12:45 **Session II: An Ex-Ante Classification System for Fossil Fuel Subsidies? Innovative Approaches Inspired by the Agreement on Agriculture**

Lead discussants:

Joel P. Trachtman, Professor, Fletcher School of Law and Diplomacy, Tufts University

Ilaria Espa, Senior Research Fellow, World Trade Institute (by video conference)

12:45 – 13:00 **Session III: The Way Forward**

Ingrid Sidenvall Jegou, Senior Associate, ICTSD

Ricardo Meléndez-Ortiz, Chief Executive, ICTSD